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In The Supreme Court of the United States

October Term, 1995

Central States, Southeast and Southwest Areas Pension Fund,
Petitioner,

v.

The Sherwin-Williams Company,
Respondent.

Petition for Writ of Certiorari to the United States Court of Appeals for the Seventh Circuit

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PETITION FOR WRIT OF CERTIORARI

Thomas C. Nyhan *
General Counsel
Terence G. Craig
James P. Condon
Central States, Southeast and Southwest Areas Pension Fund
9377 West Higgins Road
Rosemont, Illinois 60018-4938
(847) 518-9800

* Counsel of Record

Wilson - Epes Printing Co., Inc. - 789-0096 - Washington, D.C. 20001

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QUESTIONS PRESENTED

Sherwin-Williams and its two subsidiaries, Dupli-Color and Lyons were a group of trades or businesses under common control and thus, under ERISA § 1301(b)(1), were deemed a single employer for the purpose of determining pension withdrawal liability. Sherwin-Williams sold Lyons, which almost immediately went bankrupt and ceased contributing to Central States Pension Fund. Central States assessed Sherwin-Williams for withdrawal liability, pursuant to 29 U.S.C. § 1381, due to Lyons cessation of contributions and due to the fact that the group of trades or businesses comprising the employer had upon the sale of Lyons ceased to exist.

The question presented is—

Whether the sale the stock of a corporation that is a member of a group of trades or businesses under common control (a "control group") comprising an ERISA employer constitutes a withdrawal of that employer from the multiemployer pension plan to which the sold corporation contributed unless exempted by 29 U.S.C. § 1398?

This question has two components—

1. Whether a group of trades or businesses comprising an ERISA employer before the sale of one of its components that contributes to a multiemployer pension plan is, after the sale, the same ERISA employer—although now comprised of a different (smaller) group of trades or businesses?

2. Whether 29 U.S.C. § 1398 applies in the event of a sale of a corporation's stock to exempt from withdrawal an ERISA employer that satisfies the requirements of § 1398?

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PETITION FOR WRIT OF CERTIORARI

OPINIONS BELOW

The decision of the court below is reported at 71 F.3d 1338 and is reproduced in Appendix A, pp. 1a-11a. The decision of the district court is reported at 879 F.Supp. 867 and is reproduced in Appendix B, pp. 12a-32a. The decision of the arbitrator in Case No. 51-621-0009-91 (American Arbitration Association, Chicago Regional Office) (Sept. 12, 1994) is reproduced in Appendix C, pp. 33a-44a.

JURISDICTION

The judgment of the court below was entered on December 14, 1995. Jurisdiction of this court is invoked under 28 U.S.C. § 1251(1).

STATUTES INVOLVED

29 U.S.C. § 1301

> (b)(1) An individual who owns the entire interest in an unincorporated trade or business is treated as his own employer, and a partnership is treated as the employer of each partner who is an employee within the meaning of section 401(c)(1) of Title 26. For purposes of this subchapter, under regulations prescribed by the corporation, all employees of trades or businesses (whether or not incorporated) which are under common control shall be treated as employed by a single employer and all such trades and businesses as a single employer. The regulations prescribed under the preceding sentence shall be consistent and coextensive with regulations prescribed for similar purposes by the Secretary of Treasury under section 414(c) of Title 26.

29 U.S.C. § 1398(1)

> Notwithstanding any other provision of this part, an employer shall not be considered to have withdrawn from a plan solely because—
>
> (1) an employer ceases to exist by reason of—
>
> (A) a change in corporate structure described in section 1369(b) of this title, or
>
> (B) a change to an unincorporated form of business enterprise,
>
> if the change causes no interruption in employer contributions or obligations to contribute under the plan. . . .
>
> * * * *

For purposes of this part, a successor or parent corporation or other entity resulting from any such change shall be considered the original employer.

STATEMENT OF THE CASE

Central States, Southeast and Southwest Areas Pension Fund ("Central States") is a multiemployer pension plan within the meaning of 29 U.S.C. § 1301(a)(3). The Sherwin-Williams Company ("Sherwin-Williams") owned, until 1990, two companies that contributed to Central States on behalf of certain of their employees. One of the companies, Dupli-Color, is still owned by Sherwin-Williams and still contributes to Central States. The other company, Lyons Transportation Lines, Inc. ("Lyons") also contributed to Central States for a time. Sherwin-Williams purchased Lyons in 1987 and on May 31, 1990, sold its stock. Until Lyons was sold, these three companies constituted a group of trades or businesses under common control within the meaning of 29 U.S.C. § 1301(b)(1). This group was, under § 1301 (b)(1), the ERISA employer. In October 1990, Lyons went bankrupt and ceased contributing to Central States. Central States assessed Sherwin-Williams for $1,764,339.15 in withdrawal liability. In arriving at this assessment Central States determined that the sale of Lyons had caused the cessation of Lyons contributions.[1] Therefore the withdrawal liability exemption of 29 U.S.C. § 1398 did not apply. Since the sale of Lyons had broken up the ERISA employer, a withdrawal of that employer occurred under 29 U.S.C. § 1383 for which Sherwin-Williams was liable.

Sherwin-Williams disputed Central States' assessment and demanded arbitration, as it was required to do by

[1] For purposes of its decision the court below assumed, as it must, that the sale of Lyons caused the interruption in contributions to Central States. Decision below (hereinafter App. A) at 6a. The legal rulings below obviated the need for an express factual finding on this point, which therefore remains for a later ruling by an arbitrator.

29 U.S.C. § 1401. The arbitrator ruled that if the sale of Lyons caused the interruption of contributions to Central States, then under § 1398 the Sherwin-Williams group should be deemed intact (as if Lyons had not been sold). But since Dupli-Color still contributed, a withdrawal could not have occurred and the Central States' assessment was erroneous.

Central States appealed to the United States District Court for the Northern District of Illinois. The district court ruled that the arbitrator's reasoning was flawed (the group should not be deemed intact). The court nonetheless affirmed the arbitrator on other grounds. To the district court the old group simply never ceased contributing because of Dupli-Color's continuing contributions.

Central States appealed to the United States Court of Appeals for the Seventh Circuit. The court below ruled that neither the arbitrator nor the district court directly confronted Central States central argument that the original employer had ceased to exist (hence had withdrawn) when Sherwin-Williams sold Lyons. The court below ruled that the original employer survived the sale of one of its components therefore could not withdraw on that account. Further, it ruled that 29 U.S.C. § 1398 did not contradict this ruling because that statute did not apply to a sale of stock as occurred here. The district court was affirmed on this ground.

SUMMARY OF REASONS FOR GRANTING THE WRIT

Sherwin-Williams and its wholly-owned subsidiaries Lyons and Dupli-Color were a group of trades or businesses under common control within the meaning of 29 U.S.C. § 1301(b)(1). Lyons and Dupli-Color were contributors to Central States. Lyons was sold and shortly afterwards went bankrupt and ceased contributing to Central States. Under 29 U.S.C. § 1398 a change in corporate structure does not constitute a withdrawal from

a pension plan unless it causes an interruption of contributions to the plan. Because Lyons ceased contributing, Central States assessed Sherwin-Williams for withdrawal liability.

The court below ruled that Sherwin-Williams did not withdraw and was not liable to Central States because the Sherwin-Williams group continued to exist and continued to contribute. Section 1398, it held, did not apply to a sale of stock like this, and thus did not imply a dissolution of the original employer as Central States had argued. In arriving at this conclusion, the court below rejected the contrary views of the Pension Benefit Guaranty Corporation, the agency charged with oversight of the statute. This lack of deference to the government agency conflicts with this court's decision in *Chevron, USA v. NRDC*, 467 U.S. 837 (1984), which requires such deference, and with *Pension Benefit Guaranty Corporation v. LTV*, 496 U.S. 633 (1990), which requires particular deference to the PBGC's interpretation of Title IV of ERISA. Further, the decision of the court below conflicts directly with decisions of the Third, Sixth, and Ninth Circuits. These circuits have each held that § 1398 does apply to sales of stock specifically because a sale of stock does destroy the original employer, which leads to withdrawal liability unless the statutory exemption applies.

The three circuits with whom the court below disagrees had been following 15 years of settled law. The term "employer" is the most fundamental of ERISA terms. The court below referred, however, to inapplicable tax regulations in deciding that employer means something other than what the agency and other courts had thought. Moreover, the court misunderstood even those regulations. Under the appropriate ERISA regulations, a group of trades or businesses under common control is a single employer. The employer is unique to its make up. If the make up changes through a sale of stock, the employer is dissolved. By ruling that an ERISA employer main-

tains its identity after the sale of one of its components, the court below has attacked ERISA at its foundation. If there is no agreement on this most basic of terms, then the statute is unworkable. Multiemployer pension plans and their contributing employers transcend circuit boundaries. If different law applies to the same transaction, then these plans cannot effectively administer the statute.

REASONS FOR GRANTING THE WRIT

I. INTRODUCTION TO ERISA CONTROL GROUP (EMPLOYER): DISSOLUTION, LIABILITY AND SUCCESSORSHIP.

Under Title IV of ERISA trades or businesses under common control constitute a single employer. 29 U.S.C. § 1301(b)(1). Thus, a parent corporation and its wholly-owned subsidiary would constitute one employer with respect to a pension plan whether one or both of them were obligated to contribute to the pension plan. The same is true of a so-called "brother-sister" group of corporations whose common control is established by common ownership of their stock (by five or fewer individuals).[2] This "control group" rule has profound implications under Title IV.[3] Most common, it pierces the corporate veil for certain ERISA liabilities because where the statute makes the "employer" liable, it necessarily makes each component of the control group liable even

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[2] Rules relating to trades or businesses under common control for purposes of ERISA are found at 26 C.F.R. 1.414(c). These rules also apply to unincorporated businesses in similar fashion, but that will not be important here.

[3] The term "control group" will be used here to mean a group of trades or businesses under common control within the meaning of ERISA 29 U.S.C. § 1301(b) and 26 U.S.C. § 414(c) and regulations thereunder. This is to distinguish the term from a similar but distinct term "controlled group," which is used in 26 U.S.C. § 1563 for tax purposes and is also sometimes used in ERISA (29 U.S.C. § 1301(a)(14) and 26 U.S.C. § 414(b)). The terms "control group" and "employer" will be used interchangeably herein.

though some of the components, standing alone, would not be liable due to the usual liability limitations of the corporate form. Some examples will illustrate:

Assume parent company P owns all of subsidiary company S, which contributes to a multiemployer pension plan. Control group P-S is the ERISA employer. Now if S ceases contributions, then employer P-S will have completely withdrawn from the pension plan because no more contributions are being generated by the employer. Employer P-S will therefore incur withdrawal liability to the pension plan. Since employer P-S is not in fact a single entity, however, the pension plan will collect the liability from P and from S, who as components of the employer are jointly and severally liability for the liability of employer P-S. *See Pension Benefit Guaranty Corporation v. Ouimet Corp.*, 630 F.2d 4, 11 (1st Cir. 1980), *cert. denied*, 450 U.S. 914 (1981).

The control group rule can also protect an employer from liability. For example, if both P and S contribute to the pension plan, the cessation of contributions by S does not constitute a cessation by employer P-S because P continues to contribute. Both P and S are shielded from withdrawal liability because employer P-S has not withdrawn.[4]

Next suppose that P, a non-contributor, sells the stock of S, which continues to contribute to the pension plan. Control group P-S ceases to exist and the two components go their separate ways. But if control group P-S ceases to exist, so has employer P-S, which must, therefore, have withdrawn from the pension plan. S is now employer S, a new employer under the pension plan. P and S would be liable for withdrawal liability unless saved by another statutory provision, which they are.

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[4] If the company that ceases contributions made more than 70% of the control group's contributions, its cessation might constitute a partial withdrawal of the control group employer under 1385(a)(1) for which the companies would share partial withdrawal liability.

In 29 U.S.C. § 1398 Congress provided that an employer like P-S does *not* withdraw from a pension plan "solely because" of certain "changes in corporate structure" described in 29 U.S.C. § 1369(b). Section 1369(b) provides that if an employer ceases to exist by reason of a merger, consolidation, or division, the successor corporation or corporations shall be treated as the employer to which these rules apply.[5] Read together these provisions mean that a withdrawal does not occur when P sells S (thus dividing employer P-S) provided that the conditions of § 1398 are met.[6]

The workings of the statute described above has been the settled interpretation of the courts and the agency that administers ERISA, the Pension Benefit Guaranty Corporation ("PBGC"), for over 15 years. PBGC Opinion Letter 82-4 (Feb. 10, 1982) (App. D at 45a); *Dorns Transportation v. Teamsters Pension Trust Fund*, 787 F.2d 897 (3rd Cir. 1986); *Teamsters Pension Trust Fund v. Central Michigan Trucking*, 857 F.2d 1107 (6th Cir. 1988); *Penn Central Corp. v. Western Conference of Teamsters Pension Trust Fund*, 75 F.3d 529 (9th Cir. 1996). The court below has now decided, however, that this conventional view of the statute is wrong. According to the Seventh Circuit § 1398 simply does not apply to sale of stock because, the court believed, a control group does not lose its identity and continues to be the ERISA employer even when it loses one of its contributing members. But the Seventh Circuit view and the conventional view will often lead to different results. Under the conventional view of control groups, there would be withdrawal liability imposed on Sherwin-

[5] The original rule, which was then codified at § 1362(d), applied to employers. The present version, § 1369(b), was broadened to cover both employers and other entities, so the term "person," rather than "employer" is now used.

[6] There are two conditions: the withdrawal to be avoided must be based solely on the change of form; and the change must not result in an interruption in contributions to the pension plan.

Williams in this case because the sale of the stock of Lyons by Sherwin-Williams (a dissolution of the control group) caused an interruption in contributions to Central States so that § 1398 would not shield the employer from liability. In the Seventh Circuit's view, however, the Sherwin-Williams control group is still the Sherwin-Williams control group even after the sale of Lyons. "There was, and is, only one 'group' " the Sherwin-Williams group." App. A at 10a. Since contributions continue from another control group member (Dupli-Color), the Sherwin-Williams "employer" has not completely withdrawn and Sherwin-Williams is not liable. *Id.* Although Lyons ceased contributing (and withdrew), it cannot pay its withdrawal liability because it is bankrupt. According to the Seventh Circuit the pension plan (Central States) must bear the loss.

Nor does this case represent an academic foray into the ontology of control groups (*i.e.*, whether a given control group *exists* or not). Under 29 U.S.C. § 1398, each entity resulting from a "change in corporate structure" (a stock sale, for example) is a "successor" to the "original employer." This underscores that the drafters of the statute contemplated that a stock sale and other changes in corporate structure would work a real change in the identity of the pre-sale employer control group (why else refer to the "original" as opposed to the "successor" employer?). The Seventh Circuit's opinion in this case completely ignores this "successorship" provision of § 1398.

More important, in practical terms, the "successor" employers are succeeding to all or a portion of the pension contribution history of the original employer. PBGC Opinion Letter No. 92-1 (March 30, 1992), App. D at 59a. Pension contribution history (measured in "contribution base units") forms a basic component under the statute for determining each employer's withdrawal liability

in the event of a statutory withdrawal. One of the basic goals of MPPAA is to ensure that responsibility for contribution history is fully allocated to all contributing employers. *Pension Benefit Guaranty Corporation v. R.A. Gray,* 104 S.Ct. 2709, 2714 (1984). The successorship provision of § 1398 furthers that goal. By ignoring the successorship provision of § 1398, and denying that a stock sale results in the cessation of existence of the pre-sale control group, the Seventh Circuit has imperilled the concept of continuing responsibility for pension contribution history. The statute (§ 1398) indicates that an employer (control group member) who sells the stock of its subsidiary in a sale that *causes* an interruption of pension contributions from that subsidiary is liable as a "successor" for the subsidiary's contribution history. A stock sale that causes an interruption in contributions is *not* exempt from withdrawal liability under § 1398. Further, because § 1398 speaks of the "original" employer (before the sale) and successor employers (after the sale), the inference is clear that the statute intends the pre-sale employer to be viewed as annihilated and therefore subject to an immediate claim for withdrawal liability in the event of such a non-exempt stock sale. But the Seventh Circuit's opinion disregards this statutory mechanism for ensuring the continued responsibility for pension contribution history.

II. THE DECISION OF THE COURT BELOW HAS MADE ERISA UNWORKABLE IN ONE OF THE STATUTE'S MOST FUNDAMENTAL ASPECTS.

Nothing is more fundamental to the operation of Title IV of ERISA than the meaning of the term "employer." This is particularly true of the withdrawal liability provisions added by MPPAA, 29 U.S.C. §§ 1381-1405. (Of these 25 sections only §§ 1392 and 1400 do not refer expressly to the "employer.") It is therefore, fair to say that in the absence of a common understanding of the term "employer" the statute cannot be administered. For

over 15 years, however, a common understanding of the term has been consistently applied by multiemployer pension plans like Central States that are governed by the statute, by the Pension Benefit Guaranty Corporation ("PBGC"), the government agency that oversees the statute, and by the arbitrators and judges that have resolved disputes under the statute. Now the court below has decided that this common understanding is wrong. After expressly rejecting the PBGC's written interpretation and ignoring all of the case law on the subject (App. A at 9c), the court below chose an inapplicable regulation of a different agency as its source for defining this all-important ERISA term. Thus, for now, the law of the Seventh Circuit is different from the law elsewhere. But this is not a statute that will bear different interpretations in different venues on such a fundamental term. Plans like Central States deal with thousands of companies that make contributions to Central States on behalf of their employees. These companies and their employees are found in almost every state, and many (if not most) of them operate in more than one state. Sales of stock, which alter the composition of ERISA employers, are one of the most common events triggering scrutiny by a pension plan under the withdrawal liability provisions of ERISA. If the law varies from one circuit to the next, Central States (and other multiemployer plans) cannot know how to apply the law because it cannot tell in advance of litigation what law applies. Nor can a contributing employer be certain whether a sale of stock will result in liability until venue is established.

The flaw in the Seventh Circuit's reasoning may be discerned in the following statement of the court: "The regulations treat the 'controlled group' as having an independent existence, which survives the arrivals and departures that are so numerous in a corporate family of any size. We do not see how the Fund's position can be reconciled with this understanding." At least the court

was right in its last sentence—the two cannot be reconciled —but it is the court's understanding that is plainly wrong, in its first sentence. First, the court refers to the wrong regulation, 26 C.F.R. 1.1563-1, which defines "controlled groups" for tax purposes. This regulation does not, however, apply to ERISA where the appropriate term is "trades or businesses under common control" (which we have termed "control groups"). The latter term is found in ERISA at 29 U.S.C. § 1301(b)(1), which tells us to look to 26 U.S.C. § 414(c) and regulations thereunder for guidance. Thus, 26 C.F.R. 1.414(c)-1 and -2, are the regulations which deal with groups of trades or businesses under "common control" as used in ERISA.[7]

This may not matter, however, because the court below concluded erroneously and relied upon its belief that controlled groups under 26 C.F.R. 1-1563-1 have an existence independent of their components, which might come and go without effecting the controlled group's existence. This is plainly wrong. A controlled group has a unique structure for each tax year. Sherwin-Williams' controlled group the year before it sold Lyons is not the same under these tax regulations as Sherwin-Williams' controlled group the year after it sold Lyons. They are two different controlled groups with very different tax consequences under § 1563. The fact that both may be called (at least by the court below) the "Sherwin-Williams group" is not a product of the regulation, but of the court's own choice of terminology, and it does not make the two controlled groups the same.

Central States' view, which is consistent with the regulations under 26 U.S.C. § 414(c) (the ERISA regula-

[7] The court below apparently looked in error at regulation 26 C.F.R. § 1.414(b)-1, which directed it to regulation 26 C.F.R. § 1.1563. *See* App. A at 8a. While the regulations under 26 U.S.C. §§ 414(c) (i.e., 26 C.F.R. 1.414(c)) are similar to those under 26 U.S.C. § 1563 in some respects, the § 414(c) regulations are independent and stand apart from the other.

tion), is that a control group (the ERISA employer) has a unique make up. If the components change, a new control group (a new employer) is created and the old is dissolved. And, as we have shown, the tax regulations under 26 U.S.C. § 1563 work similarly in this respect Components do not arrive and depart like trains at a station; they are either in or out at a relevant point in time (the end of the tax year).[8] A new test is applied each year to determine the new controlled group. As an ERISA regulation 26 C.F.R. § 414(c) works similarly for trades or businesses under common control but does not focus on the end of the tax year.

Congress was well aware of how the tax code works when it wrote MPPAA. (The Joint Tax Committee was a principal author of the statute.)[9] It realized that sales of corporations that are components of a control group would have the consequence of altering the ERISA employer (by destroying the old group and giving birth to a new group) and thus causing withdrawals (and withdrawal liability) where none was warranted. So Congress wrote 29 U.S.C. § 1398 into the statute to mitigate.

> The bill treats an employer as withdrawing from a multiemployer plan when the employer (1) permanently ceased to have an obligation to contribute under the plan, or (2) permanently ceases all covered operations under the plan. A withdrawal does not occur, however, where an employer ceases to exist merely by reason of a change in form or structure,

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[8] Would a component of a 1995 controlled group headed by Sherwin-Williams be liable for the taxes of a 1994 controlled group headed by Sherwin-Williams to which it did not belong in 1994? Obviously not. The 1994 controlled group ceased to exist and a new controlled group came into being in 1995.

[9] The choices of terms and cross references are precise. ERISA Section 29 U.S.C. § 1301(b)(1) refers to "common control" with a reference to IRC § 414(c) (relating to common control) but not to "controlled group," a term under IRC §§ 1563 and 414(b).

> as long as the employer is replaced by a successor employer and there is no interruption in the successor employer's contributions to the plan or obligation to contribute under the plan. For example, if P Corporation owns 100 percent of the stock of S Corporation, a subsidiary that has an obligation to contribute to a multiemployer plan on behalf of its employees, the controlled group consisting of P and S would be considered an employer with an obligation to contribute to the plan. If P sells all of its interest in S to an unrelated party, the controlled group consisting of P and S would cease to exist. However, if S continues to have an obligation to contribute to the plan, no withdrawal would be considered to have taken place merely because of the change in ownership of S.

Multiemployer Pension Plan Amendments Act of 1980, Report of the Committee on Ways and Means U.S. House of Representatives; H.R. Rept. 96-869 (II) 96th Cong., 2nd Sess. (1980); 1980 U.S. Code Cong. & Admin. News 2993, 3005-3006. Section 1398 makes the resulting employer (new control group) a successor to the old control group and thus not a new employer (in the statutory language "a withdrawal does not occur"). If a withdrawal does not occur, then the corporate components are not individually liable for withdrawal liability. But if § 1398 does not apply (e.g. the sale causes an interruption in contributions), then a withdrawal does occur because the old control group (employer) is destroyed. At the point of dissolution withdrawal liability would attach to each component of the old control group.

Perhaps the Seventh Circuit put too much stock in its "family" metaphor. It saw the employer as the Sherwin-Williams group both before and after the sale of Lyons because Sherwin-Williams was the parent corporation and the court applied the same family name to both groups. (A family, we suppose, is still a family even though it marries off a daughter.) But this metaphor breaks down

quickly under ERISA. There are two kinds of common control and the same rules apply to both. Sherwin-Williams was of the parent-subsidiary variety. There is also a brother-sister type. Suppose Lyons and Dupli-Color were owned by an individual (Mr. Williams). Only Lyons and Dupli-Color would be in the control group. Would it be the Lyons group or the Dupli-Color group or the Williams group? And if Lyons stock is sold, who would be the surviving control group? Obviously neither. The brother-sister group would cease to exist when Lyons was sold. It would take § 1398, to insure a withdrawal does not occur and to make the separated components successors to the original employer (and inheritors of its contribution history). *See* PBGC Op. Ltr. 92-1 (March 30, 1992) App. D at 59a. The Seventh Circuit's rational simply does not accommodate both kinds of control group as it must if ERISA is to work on a consistent basis.

In short the Seventh Circuit failed to see how ERISA (and Congress) views the term employer. Instead the court tried to impose its own view without a thought to the consequences. But consequences there are. Fifteen years of settled law are undone. Plans can no longer safely assess withdrawal liability because they can no longer be sure what the term employer means. And since the Seventh Circuit's views are unique to its circuit, these plans and employers that operate across circuit boundaries will be subject to conflicting interpretations of the law as applied to specific events that can only be reconciled by a race to the courthouse. The court should grant a writ of certiorari because of the detrimental consequences of national scope of this conflict in applying ERISA.

III. THE DECISION BELOW CONFLICTS WITH THIS COURT'S DECISION IN *CHEVRON v. NRDC.*

The decision below is also in conflict with this Court's decision in *Chevron U.S.A. v. NRDC*, 467 U.S. 837, 104 S.Ct. 2778, 81 L.Ed.2d 694 (1984), by ignoring the

interpretation given the statute by the federal agency responsible for administering the statute. In *Chevron*, this Court ruled that if a statutory term is ambiguous and that ambiguity cannot be resolved in statutory context, the court should turn to the interpretation given by the agency of the government charged with oversight of the statute. If such interpretation is based upon a permissible construction of the statute, the court should defer to the agency's interpretation. 104 S.Ct. at 2781-82. Further, this court has particularly underscored the importance of PBGC's views in interpreting Title IV of ERISA. *PBGC v. LTV Corp.*, 496 U.S. 633, 110 S.Ct. 2668, 110 L.Ed.2d 579 (1990); *Mead v. Tilley*, 490 U.S. 714, 109 S.Ct. 2156, 104 L.Ed.2d 796 (1989).

Beginning with an opinion letter in 1982 the PBGC had consistently given its interpretation that ERISA § 1398 applies to a sale of stock that alters a control group. PBGC Op.Ltr. 82-4 (Feb. 10, 1982), App. D at 45a. *See also* PBGC Op.Ltr. 84-7 (Dec. 20, 1984) and 92-1 (Mar. 30, 1991), App. D at 56a and 59a. To the Seventh Circuit, however, "[t]he PBGC's Opinion Letter 92-1 . . . appears to make a contrary [to the court's] assumption about the effect of § 1398 . . . ." App. A at 9a. The assumption referred to is the court's assumption that control groups survive purchases and sales of stock. *Id.* But, as we showed above, transactions that leave the parent unaffected do not necessarily also leave the control group unaffected. In PBGC Op.Ltr. 83-11 (May 16, 1983), App. D at 54a, PBGC noted that even the creation of a subsidiary within a control group will create a new employer requiring application of § 1398 to prevent a withdrawal.

The court below has laid waste to these agency opinions. The point of requiring deference to the agency under *Chevron* is recognition that an agency generally has superior expertise in interpreting its own statute to that of a court. This is particularly true of ERISA as this

case shows. The Seventh Circuit erred in its independent analysis. It should have relied upon the PBGC, which knew what it was doing.

The court apparently lost confidence in PBGC because PBGC distinguished between sales of stock and sales of assets, which the court below viewed as essentially the same thing under ERISA. *See* App. A. at 9a. What the court overlooked is that Congress made the distinction between these kinds of sales and PBGC was merely following congressional direction as should the court below. *See* PBGC Op.Ltr. 82-17 (May 26, 1982) and 82-40 (Dec. 27, 1982), App. D at 48a and 51a.[10] Sales of assets are handled expressly in 29 U.S.C. § 1384. Sales of stock are subsumed under § 1398. If there were any doubt, Congress provided explicit direction in the committee report that accompanied the statute by virtually quoting § 1398 and then giving an example of its application to a sale of stock.

> A withdrawal does not occur, however, where an employer ceases to exist merely by reason of a change in form or structure, as long as the employer is replaced by a successor employer and there is no interruption in the successor employer's contributions to the plan or obligation to contribute under the plan. For example, if P Corporation owns 100 percent of the stock of S Corporation, a subsidiary that has an obligation to contribute to a multiemployer plan on behalf of its employees, the controlled group consisting of P and S would be considered an employer with an obligation to contribute to the plan. If P sells all of its interest in S to an unrelated party, the controlled group consisting of P and S would cease to exist. However, if S continues to have an obligation to contribute to the plan, no withdrawal

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[10] *See also Bowers v. Andrew Weir Shipping*, 27 F.3d 800, 807-808 (2nd Cir. 1994) (distinguishing sales of assets under § 1384 from sales of stock under § 1398).

> would be considered to have taken place merely because of the change in ownership of S.

Multiemployer Pension Plan Amendments Act of 1980, Report of the Committee on Ways and Means U.S. House of Representatives; H.R. Rept. 96-869 (II) 96th Cong., 2nd Sess. (1980); 1980 U.S. Code Cong. & Admin. News 2993, 3005-3006. There is good reason for a distinction between stock and asset sales. When a corporation is sold as an on-going contributor to a pension plan,, the corporation's contracts go with it, including the collective bargaining agreement under which it contributes. When operating assets are sold, by contrast, the buyer does not necessarily assume the contracts and certainly not the ERISA liabilities of the seller. Thus for a seller of assets to avoid liability it must apply 29 U.S.C. § 1384, which requires the buyer's voluntary assumption of responsibility. Whereas a corporation in a stock sale transaction carries its liabilities with it as a matter of corporate law. Thus §§ 1384 and 1398 achieve a similar result (no withdrawal and liability follows the sold operations) by different means.

Since the PBGC interpretation is a permissible construction of the statute, the court below should have deferred to it. By detouring into the complexities of asset sales, the court below lost its way. Having rejected PBGC as its compass, it blazed its own trail to a result at odds with the world. Because the Seventh Circuit failed to give the deference required by *Chevron* and *LTV*, this court should grant the writ of certiorari.

IV. THE DECISION BELOW CONFLICTS WITH DECISIONS OF THE THIRD, SIXTH AND NINTH CIRCUITS.

The court below held that when Sherwin-Williams sold Lyons it did not withdraw from Central States—not because 29 U.S.C. § 1398 applied to save it (the court believed § 1398 did not apply to a stock sale), but because

the employer, the Sherwin-Williams group, remained intact as a contributor (through Dupli-Color). This places the Seventh Circuit in conflict with the Third, Sixth, and Ninth Circuits, each of which has held that § 1398 does apply to stock sales and necessarily held (by implication) that if the requirements of § 1398 are not met, then the sale of stock constitutes a withdrawal due to the dissolution of the control group.[11]

In *Penn Central Corp. v. Western Conference of Teamsters Pension Trust Fund,* 75 F.3d 529 (9th Cir. 1996) the court faced a situation where a parent corporation (Penn Central) sold its only contributing subsidiary (Buckeye Gas) in a stock sale. "There is no question that Penn Central completely withdrew from the plan . . . when it sold Buckeye Gas. . . ." *Id.* at 533. "Penn Central ceased to exist as a covered employer and was subject to an assessment of withdrawal liability for its former subsidiaries." *Id.* "The real question in this case is whether Penn Central is exempt under 29 U.S.C. § 1398 from paying the withdrawal liability for G.K. and Marathon."[12] Obviously the Ninth Circuit applied § 1398 under circumstances that the court below determined had no bearing on § 1398. Moreover, in arriving at its conclusion the Ninth Circuit relied on the very PBGC Op. Ltr. (92-1, App. D at 59a) that the court below rejected. "We are obligated to defer to the PBGC's interpretation '[e]ven if reasonable minds could differ as to the proper interpretation of the statute.' *Elliott v. Carpenters' Pension Trust Fund,* 859 F.2d 808, 813 (9th

[11] The Second Circuit has also agreed with this interpretation in *Bowers v. Andrew Weir Shipping,* 27 F.2d 800, 805 (2nd Cir. 1994).

[12] G.K. and Marathon were subsidiaries (and contributors) that had been shut down before the sale of Buckeye. No withdrawal could occur while Buckeye remained in the control group as a contributor. When Buckeye was sold, Penn Central became liable because, while § 1398 might apply to Buckeye, it did not apply to G.K. and Marathon.

Cir. 1988), *cert. denied,* 490 U.S. 1036 (1989)." While the court relied upon its own cases to establish the deference due the PBGC, these cases are plainly consistent with *Chevron, USA,* and *LTV,* which require the same deference to the agency.

The Sixth Circuit decision in *Teamsters Pension Trust Fund v. Central Michigan Trucking,* 857 F.2d 1107 (6th Cir. 1988) also conflicts sharply with the decision below. In that case Fuqua Industries spun off the stock of Interstate Motor Express, essentially a stock sale. The court held that Fuqua was exempt from liability because pursuant to § 1398 Interstate assumed the original employer position previously held by Fuqua. *Id.* at 1109. The court specifically noted "that the common control 'employer' ceases to exist when a parent corporation sells the stock of a wholly owned subsidiary." Thus, the Sixth Circuit disagrees on both questions with the court below: The employer ceases to exist upon a sale of stock and § 1398 applies to exempt the control group from liability. Indeed the court also relied upon the legislative history and the PBGC opinion that the court below rejected. *Id.* at 1110. Finally the court addressed the tax regulations relating to control groups.

> MPPAA expressly incorporates the Internal Revenue Codes' control group provisions only to the extent that they define a control group of corporations. 29 U.S.C. § 1301(b)(1). If Congress had intended to engraft onto the pension statute the tax provisions regarding successorship following the termination of common control, it could have expressly done so. *See United Food and Commercial Workers Union v. Progressive Supermarkets,* 664 F.Supp. 633, 638 (D. N.J. 1986). Absent such an express provision, tax precepts governing successorship are not dispositive of the meaning of MPPAA's successorship provision. *Cf. United Steelworkers v. Harris & Sons Steel Co.,* 706 F.2d 1289, 1289-99 (3rd Cir. 1993).

Id. at 1111. While the court was addressing a different set of tax regulations, the point applies equally to

§ 1.1563-1 upon which the court below relied. The decision below is thus at odds in all respects with the Sixth Circuit decision.

The Third Circuit decision in *Dorn's Transportation v. Teamsters Pension Trust Fund,* 787 F.2d 897 (3d Cir. 1986) also applied § 1398 to a stock sale to the effect that there was no withdrawal. *Id.* At 901 ("we believe that the district court was correct in concluding that, under § 1398, there was no withdrawal"). In that case Oneida Motor Freight, a contributor, purchased the stock of Dorn's Transportation, another contributor. Dorn's employees were then transferred to Oneida and Dorn's ceased contributing. The district court had ruled that there was no withdrawal due to § 1398 and also due to § 1301 (using the single control group concept to encompass Dorn's before and after the sale). The Third Circuit left that "problematic holding" regarding § 1301 for another day because of its ruling under § 1398; but the court was critical of the district court. "The potential problem with the district court's interpretation of § 1301 is that it may risk making that section a catch-all exemption that enables circumvention of the requirements of the explicit exemptions such as §§ 1384 and 1398." 787 F.2d at 900, n. 4. The court noted that under such an interpretation of § 1301 "the other exemptions may thus be rendered nugatory." *Id.* Thus, the Third Circuit rejected the very theory adopted by the court below and relied instead on § 1398, which the court below rejected.

In sum all three circuits relied upon § 1398 in a stock sale situation in conflict with the Seventh Circuit. (Question 2.) By necessary implication each circuit accepted that a control group employer is extinguished when it alters its form by a sale or purchase of stock of another corporation; and the Sixth Circuit expressly agreed that the control group ceased to exist in conflict with the Seventh Circuit. (Question 1.) Moreover the other circuits are directly in conflict with the Seventh Circuit on

each of its points of analysis. The Ninth and Sixth Circuits deferred to the PBGC interpretation of the statute in accord with *Chevron, USA*, while the Seventh Circuit did not. The Sixth Circuit rejected reliance on tax regulations, while the Seventh Circuit relied upon them. And without citing the tax regulations, the Third Circuit severly question whether a control group maintains its identity (remains the employer) where a corporate member is bought or sold, while the Seventh Circuit thought it did.

Pension plans like Central States cannot effectively operate where the law of one circuit within which they operate varies so severely from the law in the other circuits within which they operate. This Court should grant the writ of certiorari to resolve this conflict.

CONCLUSION

For these reasons the petition for a writ of certiorari to the United States Court of Appeals for the Seventh Circuit should be granted.

Respectfully submitted,

THOMAS C. NYHAN *
General Counsel
TERENCE G. CRAIG
JAMES P. CONDON
CENTRAL STATES, SOUTHEAST
AND SOUTHWEST AREAS
PENSION FUND
9377 West Higgins Road
Rosemont, Illinois 60018-4938
(847) 518-9800

* Counsel of Record

APPENDICES

APPENDIX A

IN THE
UNITED STATES COURT OF APPEALS
FOR THE SEVENTH CIRCUIT

Nos. 95-1952 & 95-2028

CENTRAL STATES, SOUTHEAST AND
SOUTHWEST AREAS PENSION FUND,
Plaintiff-Appellant,
Cross-Appellee,

v.

THE SHERWIN-WILLIAMS COMPANY,
Defendant-Appellee,
Cross-Appellant.

Appeals from the United States District Court
for the Northern District of Illinois, Eastern Division
No. 94 C 6123—Milton I. Shadur, *Judge*

Argued October 24, 1995—Decided December 14, 1995

Before EASTERBROOK, KANNE, and ROVNER, *Circuit Judges.*

EASTERBROOK, *Circuit Judge.* Between 1987 and 1990 a subsidiary of The Sherwin-Williams Company owned 100% of the stock of Lyons Group, a motor carrier. Lyons was a losing proposition for Sherwin-Williams (as

we call the firm and its subsidiaries, collectively), which not only lost money on operations but also sold the stock for less than it paid. The Central States Pension Fund, a multi-employer fund to which Lyons contributed, believes that the price Sherwin-Williams must pay for this adventure exceeds the business losses; when it sold Lyons, the Fund contends, the entire Sherwin-Williams family of companies withdrew and incurred substantial liabilities under the Multiemployer Pension Plan Amendments Act of 1980, which requires firms that pull out of underfunded plans to chip in. See *Milwaukee Brewery Workers' Pension Plan v. Jos. Schlitz Brewing Co.*, 115 S. Ct. 981 (1995); *Connolly v. PBGC*, 475 U.S. 211 (1986); *PBGC v. R.A. Gray & Co.*, 467 U.S. 717 (1984); *Artistic Carton Co. v. Paper Industry Union-Management Pension Fund*, 971 F.2d 1346 (7th Cir. 1992).

Sherwin-Williams has another subsidiary (Dupli-Color) that still contributes to the Fund, but the Fund insists that this does not matter. The argument goes like this. Sherwin-Williams and all of its subsidiaries and affiliates are a single employer by virtue of 29 U.S.C. § 1301(b)(1). When it sold Lyons, Sherwin-Williams changed the constituents of its corporate group. The old group, minus Lyons, became a new group. An employer withdraws completely when it "permanently ceased all covered operations under the plan." 29 U.S.C. § 1383(a)(2). Old Sherwin-Williams ceased to exist, just as if it had liquidated and distributed its assets, and thus "permanently ceased all covered operations under the plan." New Sherwin-Williams continued to be a contributing employer, but the fact that one employer joins a plan as another employer withdraws does not relieve the withdrawing employer of its liability. One provision of the MPPAA, 29 U.S.C. § 1398(1)(A), provides that the successor to an employer that winks out of existence because of a "change in corporate structure described in section 1869(b) of this title" is "considered the original employer." Section 1369

(b)(3) deals only with corporate "division," and although "division" is an undefined term the sale of a subsidiary's stock is a form of corporate "division." See PBGC Opinion Letters 82-4 (Feb. 10, 1982), 84-7 (Dec. 20, 1984). But § 1398(1) applies only if "the change causes no interruption in employer contributions or obligations to contribute under the plan". Six months after its spinoff, Lyons ended operations and filed for bankruptcy. Its demise scotched any exemption under 29 U.S.C. § 1384, which applies only if a business provides security for five years' worth of contributions after the sale. If, as the Fund believes, Lyons' failure was "caused" by the sale, the new Sherwin-Williams corporate group also loses § 1398's shelter and must pay approximately $2 million in withdrawal liability. The difference between Lyons' own withdrawal liability of some $1.76 million and the $2 million figure for the entire Sherwin-Williams group likely is less important to the Fund than is the fact that its group-withdrawal approach ensures that the solvent Sherwin-Williams picks up the entire tab (which exceeds the price it realized from the sale of the Lyons stock) whether or not the transaction was designed to "evade or avoid" withdrawal liability, which under 29 U.S.C. § 1392(c) would require Sherwin-Williams to make good Lyons' debt. To collect under § 1392(c) a pension trust must establish that avoiding withdrawal liability was a principal purpose of the transaction, and the difficulty of proving intent may explain why the Fund has not pursued this possibility. See *Santa Fe Pacific Corp. v. Central States Pension Fund*, 22 F.3d 725 (7th Cir. 1994).

Sherwin-Williams and the Fund took their differences to an arbitrator, as the MPPAA requires. The arbitrator stated that the Fund had not presented any claim that the sale of Lyons' stock was designed to "evade or avoid" withdrawal liability or that it represented a "partial withdrawal" of the Sherwin-Williams group under § 1385(a). The only question on the table, the arbitrator thought,

was whether the sale produced a complete withdrawal of the old Sherwin-Williams group. Observing that Dupli-Color continues to participate in the Fund, the arbitrator concluded that the group's withdrawal is not "complete." As the arbitrator saw things, the Fund is trying to have things both ways: it treats the sale of Lyons' stock as dissolving the old Sherwin-Williams group and substituting a new group, yet it seeks to hold the new group responsible for the old group's liability. If Lyons' departure really caused the old Sherwin-Williams group to withdraw, then the old group logically should be liable; yet looking at the old group's operations would make it plain that withdrawal had *not* been complete—for in mid-1990 both Lyons and Dupli-Color were active contributors. The Fund sought to collect from the Sherwin-Williams group existing today, which under the Fund's theory is a different employer from the one responsible for Lyons. Moreover, Lyons' failure without surviving for five years meant that it never really became a stand-alone entity, and § 1384 attributed its failure to Sherwin-Williams. With Lyons treated as if reabsorbed into the group, neither a change of employer nor a complete withdrawal occurred.

The district judge, entitled to review the arbitrator's legal conclusions independently, see *Trustees of Iron Workers Local 478 Pension Trust v. Allied Products Corp.*, 872 F.2d 208, 211-12 (7th Cir. 1989), took a different route to the same conclusion. 879 F. Supp. 867 (N.D. Ill. 1995). The judge disagreed with the arbitrator's conclusion that Lyons' failure meant that the sale of stock should be disregarded for the purpose of identifying the employer. Only a transaction condemned under § 1392(c) should be treated as if it had not occurred, the judge believed, and the Fund has not argued that Sherwin-Williams sold the Lyons stock to "evade or avoid" withdrawal liability. But the judge believed that § 1398, on which the Fund does rely, has nothing to do with this case. The statute creating liability for complete withdrawal

is § 1383(a), which asks whether the employer has ceased making contributions. Only the old Sherwin-Williams group could have ceased contributing (for, on the Fund's theory, the new group did not come into existence until the old group sold Lyons). Yet the old group didn't cut off all contributions; Dupli-Color remains a participating employer. Any attempt to reason backwards from § 1398 to the definition of a complete withdrawal, the judge thought, "would really be *non*-statutory in nature, calling for the judicial recognition of an implied private cause of action where Congress has not expressly created one. And on that score the Supreme Court's increasing reluctance to recognize such implied rights of action should be controlling here." 879 F. Supp. at 877 (emphasis in original).

Although implied rights of action are not in vogue, ERISA and the MPPAA have plenty of express rights of action. In particular, 29 U.S.C. § 1401(b)(2) permits a multi-employer pension fund to recover withdrawal liability. Ours is not a case like *Mertens v. Hewitt Associates*, 113 S. Ct. 2063 (1993), or *Reich v. Continental Casualty Co.*, 33 F.3d 754 (7th Cir. 1994), where the provision of one right of action implied the withholding of another. Neither the arbitrator nor the district court directly confronted the Fund's central argument: that when Sherwin-Williams sold its stock in Lyons, the old Sherwin-Williams group vanished, as if it had fallen into one of Kurt Vonnegut's chrono-synclastic infundibulums. Ex-groups necessarily have withdrawn, fully and permanently, and owe withdrawal liability unless some statute prevents collection. Section 1398, the only candidate, is not up to the task, according to the Fund, because the stock sale "caused" Lyons to fail.

Now we have serious doubts that a sale of stock can be blamed for a business failure. Transfer of the certificates ownership does not affect the firm; that the identity of

the investors does not alter business operations is a central feature of corporate law. See *Baxter Healthcare Corp. v. O.R. Concepts, Inc.*, No. 95-1725 (7th Cir. Nov. 2, 1995). Stock certificates are corporate liabilities—and contingent ones at that, for the owners are not entitled to dividends in the same way debt investors are entitled to interest. If the sale of stock were accompanied by some other event—the sale of assets for an inadequate price, the replacement of top managers, or the assumption of liabilities creating a negative cash flow—then the transaction might alter the firm's prospects. But the Fund does not contend that Sherwin-Williams stripped Lyons of its profitable assets and sold only chaff; it seems to have sold the business intact. If so, then competition from other motor carriers, rather than the sale of stock, must be the prime candidate for an explanation of Lyons' failure; recall that Lyons had been headed downhill while Sherwin-Williams was its sole owner. One could say that Sherwin-Williams was better situated than its successor to invest new capital in Lyons' business, but stockholders are not obliged to throw good money after bad—are not obliged to pony up extra money under any circumstances. That is the meaning of limited liability, and of the rule in most corporate codes that shares are "nonassessable" once paid for. See *Model Business Corporation Act* § 6.21(d) (1984 rev.); see also *id.* at § 6.22. Because the arbitrator ruled against the Fund without addressing the causation question, however, it is not possible to decide the case on this ground. We must assume that the sale of stock caused the collapse. The question remains whether the sale of a subsidiary terminates the existing corporate group and causes a new, shrunken group to spring into existence.

What if Sherwin-Williams had acquired a new subsidiary instead of selling an existing one? If any change in the composition of a corporate group winds up the life of that group, then this acquisition produces a "complete withdrawal" with concomitant liability. So too with

the closing of 1 out of 100 subsidiaries that contribute to the Fund; nothing in the Fund's argument logically depends on the fact that Sherwin-Williams had only two contributing subsidiaries. Why stop with the sale or purchase of a subsidiary? What about the opening of a new plant or terminal or corporate division, or the close of an old one? A corporation is just a nexus of contracts, subject to rearrangement in many ways. Section 1301 (b)(1) and the implementing regulations are designed to treat subsidiaries like divisions. If selling stock means a complete withdrawal, then so does a change in divisional organization or operation. Cf. *Copperweld Corp. v. Independence Tube Corp.*, 467 U.S. 752 (1984) (treating subsidiaries and divisions alike for purposes of the antitrust laws). And that is not all. What about the sale of a key patent, which may mean more to the firm's operations than any division or subsidiary? Change is the one constant in corporate organization. Employees, plants, products, divisions, subsidiaries, all come and go. Heraclitus quipped that you cannot step twice into the same river. A corporate group is always changing, and the change flows more swiftly than many rivers. "Complete withdrawal" then must be frequent. Many of these will not come within § 1398. Return to the 1-in-100 subsidiary example: closing one subsidiary causes an interruption in that corporation's contributions.

Does it make sense of the statute to treat our 1-in-100 example as a "complete withdrawal" of the entire corporate group? The MPPAA draws a sharp line between complete and partial withdrawal. Under § 1385 a withdrawal is only "partial" unless the contribution decline exceeds 70%, or there is "a partial cessation of the employer's contribution obligation." 29 U.S.C. § 1385(a)(2). If a single corporation has 100 plants, the closing of one will not produce either a full or a partial withdrawal unless the closed plant did 70% of the firm's business. (If the closed facility employed more than 20% of the firm's covered workers, the substantial-employer rules of

29 U.S.C. §§ 1363-65 govern. See 29 U.S.C. § 1362(e).) The PBGC believes that closing a subsidiary should be treated just like closing a plant, and that selling all of a subsidiary's assets should be treated just like closing a subsidiary. Opinion Letter 92-1 (Mar. 30, 1992). Yet under the Fund's view, each of these transactions would extinguish the group and create complete withdrawal, because each causes a subsidiary to disappear. Given the statutory objective of treating a firm that organizes into a holding company with 100 subsidiaries just like a corporation organized into 100 divisions, it must follow that a group's sale of a single subsidiary's stock should be treated like selling its assets, or like selling an unincorporated division, and therefore does not produce a complete withdrawal of the group—not unless that subsidiary was the only one making contributions to a particular plan.

Section 1301(b)(1) reinforces this conclusion, albeit indirectly. This section reads: "For purposes of this subchapter, under regulations prescribed by the corporation, all employees of trades or businesses (whether or not incorporated) which are under common control shall be treated as employed by a single employer and all such trades and businesses as a single employer. The regulations prescribed under the preceding sentence shall be consistent and coextensive with regulations prescribed for similar purposes by the Secretary of the Treasury under section 414(c) of Title 26." The PBGC's regulations, in 29 C.F.R. Part 2612, do nothing but point to the IRS regulations under § 414. Regulations under § 414 do little beside point elsewhere. See 26 C.F.R. § 1.414(b)-1. The end of this chain is 26 C.F.R. § 1.1563-1, which defines a "controlled group." Section 1.1563-1 is founded on the premise that the departure (or arrival) of a subsidiary does not terminate the controlled group and create a "new group." Instead the regulations speak of "component members" arriving and departing, and they provide rules for determining the effective date of these

transactions. 26 C.F.R. § 1.1563-1(b). The regulations treat the "controlled group" as having an independent existence, which survives the arrivals and departures that are so numerous in a corporate family of any size. We do not see how the Fund's position can be reconciled with this understanding.

What then is one to make of § 1398? As we read it, § 1398 is a savings clause, a proviso that comes into play only if some other step causes the participant to vanish. Consider some common reorganizations: (i) A dissolves and distributes its assets to B and C, which carry on the same business as A did. (ii) D merges into E, which is the surviving corporation. (iii) F recapitalizes by selling its assets to G, which pays with money raised from issuing debentures. F distributes the cash to its old investors and dissolves. G next merges into H, the source of the capital, which owns all of G's stock. H renames itself "F Corporation." In all three of these cases, and many similar ones, the original participant in the pension plan vanishes under standard doctrines of corporate law, but the business continues. Without some rule allowing the substitution of its successor, a transaction that has no economic effect on the pension fund would generate a windfall of withdrawal liability; and the prospect of this liability could prevent reorganizations that have benefits for investors, employees, and customers alike. Sales of existing subsidiaries, and other transactions that under corporate law leave the parent unaffected, need no such shelter. Both corporate law and the Treasury regulations to which § 1301(b)(1) send us treat controlled groups as surviving purchases and sales of stock. The PBGC's Opinion Letter 92-1, to which we have already referred, appears to make a contrary assumption about the effect of § 1398, distinguishing the sale of a subsidiary's stock from the sale of a subsidiary's assets, but the opinion letter does not say why. Unexplained assumptions are a poor basis for statutory interpretation.

It may be that some members of Congress, talking on the floor, understood § 1398 as the Fund does (although they certainly did not parse its language). Congressional assumptions are some distance from rules of law. *American Hospital Ass'n v. NLRB*, 499 U.S. 606, 615-17 (1991). The statute delegates to the PBGC (and indirectly to the Secretary of the Treasury) the power to define groups, and that regulatory perspective must be respected. There was, and is, only one "group": the Sherwin-Williams group. No "old Sherwin-Williams group." Just one group comprising changing assortments of assets and operations. That group has not completely withdrawn from the Fund.

One final issue requires only brief treatment. Sherwin-Williams sought attorneys' fees and filed a cross-appeal from the district court's decision requiring each side to bear its own costs and fees both in court, the province of 29 U.S.C. § 1451(e), and before the arbitrator, to which 29 U.S.C. § 1401(a)(2) applies. The right question on appeal is whether the district court abused its discretion. *Hooper v. Demco*, 37 F.3d 287, 291 (7th Cir. 1994); *Nichol v. Pullman Standard, Inc.*, 889 F.2d 115, 121 (7th Cir. 1989). Cf. *Pierce v. Underwood*, 487 U.S. 552 (1988), holding that deferential appellate review is the right standard under another statute similar to the attorneys' fees provisions of ERISA. Regulations say that the court should not shift arbitral attorneys' fees unless the loser acts "in bad faith or engages in dilatory, harassing, or other improper conduct during the course of the arbitration". 29 C.F.R. § 2641.9(c). This record does not contain a whiff of such conduct. As for the proceedings in the district court: the loser must pay if its position lacked a substantial basis. See *Central States Pension Fund v. Lady Baltimore Foods, Inc.*, 960 F.2d 1339, 1347 (7th Cir. 1992). Although we have established a presumption that one who challenges an arbitrator's award and loses lacked substantial justification, see *Continental Can Co. v. Chicago Truck Drivers Pen-*

sion Fund, 921 F.2d 126 (7th Cir. 1990), a presumption can be overcome. The district court concluded that it had been, because this is a case of first impression with decent arguments on each side. That assessment strikes us as sensible; certainly it is not an abuse of discretion.

AFFIRMED

A true Copy:
Teste:

Clerk of the United States Court of
Appeals for the Seventh Circuit

APPENDIX B

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

No. 94 C 6123

CENTRAL STATES, SOUTHEST, AND
SOUTHWEST AREAS PENSION FUND
and HOWARD MCDOUGALL, trustee,
Plaintiffs,

v.

SHERWIN-WILLIAMS COMPANY,
Defendant.

No. 94 C 6129

SHERWIN-WILLIAMS COMPANY,
Plaintiff,

v.

CENTRAL STATES, SOUTHEAST, AND
SOUTHWEST AREAS PENSION FUND,
Defendant.

MEMORANDUM OPINION AND ORDER

Central States, Southeast and Southwest Areas Pension Fund and its Trustee (collectively "Fund," treated as a singular noun [1]) seeks to modify and vacate an arbitra-

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[1] Because Fund is a frequent litigant in the federal courts, and to avoid cumbersome repetition, citations to others of its cases and to avoid cumbersome repetition, citations to others of its cases in this opinion will refer to it simply as "Central States Fund" rather than spelling out its full name.

tion award (the "Award") in favor of Sherwin-Williams Company ("Sherwin-Williams") on Fund's claim against Sherwin-Williams for complete withdrawal liability under the Employee Retirement Income Security Act of 1974 ("ERISA"), 29 U.S.C. §§ 1001-1368, as amended by the Multiemployer Pension Plan Amendments Act ("MPPAA"), 29 U.S.C. §§ 1381-1461.[2] For its part, in a lawsuit filed immediately after Fund's,[3] Sherwin-Williams seeks enforcement of the Award, plus a modification that would grant it the recovery of its attorney's fees and expenses associated with the arbitration. In addition, Sherwin-Williams asks to recover its attorney's fees and expenses associated with these actions.[4]

Both Sherwin-Williams and Fund now move for summary judgment under Fed. R. Civ. P. ("Rule") 56. For the reasons stated in this memorandum opinion and order:

1. Sherwin-Williams' motion for enforcement of the Award is granted, while its motions to modify the Award and for recovery of its attorney's fees and expenses are denied.

2. Fund's motion is denied.

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[2] All ERISA and MPPAA provisions will be cited simply "Section ——," referring to their Title 29 numbering rather than to ERISA's or MPPAA's internal numbering.

[3] As the numbers of the two actions suggest, they were actually filed on the same day. Random assignment resulted in their original allocation to the calendars of two different judges, but the Sherwin-Williams action has since been reassigned to this Court's calendar.

[4] This is not the first time the parties have been before this District Court. Three years ago this Court's colleague Honorable John Grady refused to reach Sherwin-Williams' constitutional attack on MPPAA in an earlier action that it brought against Fund (787 F.Supp. 136 (N.D. Ill. 1992)).

Legal Standards

This Court's authority "to enforce, vacate, or modify the arbitrator's award" under MPPAA derives from Section 1401(b)(2). Findings of fact made by the arbitrator are presumed correct, rebuttable only by a clear preponderance of the evidence (Section 1401(c)).[5] But an arbitrator's conclusions of law are subject to de novo review (*Central States Fund v. Bell Transit Co.*, 22 F.3d 706, 710 (7th Cir. 1994)), and summary judgment is in order "when no genuine issues of material fact exist and when the moving party is entitled to judgment as a matter of law" (*id.*).[6]

On each current motion this Court is "not required to draw every conceivable inference from the record—only those inferences that are reasonable"—in the light most favorable to the nonmovant (*Bank Leumi Le-Israel, B.M. v. Lee*, 928 F.2d 232, 236 (7th Cir. 1991) and cases cited there). Because both Sherwin-Williams and Fund have moved for summary judgment, it is necessary to adopt "a dual perspective—one that this Court has often described as Janus-like—that sometimes involves the denial of both motions" (*Camelot Care Ctrs., Inc. v. Planters Lifesavers Co.*, 836 F. Supp. 545, 545 (N.D. Ill. 1993)). But because the material facts here are not in dispute, no such hazard is posed in setting out the following account of the developments leading to arbitration.

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[5] Mixed questions of law and fact are reviewed under a similar "clearly erroneous" standard (*Chicago Truck Drivers, Helpers & Warehouse Workers Union (Independent) Pension Fund v. Louis Zahn Drug Co.*, 890 F.2d 1405, 1411 (7th Cir. 1989)).

[6] Though the arbitrator's Sept. 12, 1994 decision ("Decision") at 11 leaves it unclear whether he granted Sherwin-Williams' motion for summary judgment or its alternative motion to dismiss, that makes no difference in the resolution of the matter.

Facts [7]

Sherwin-Williams is a large employer with a number of subsidiaries and branches. Fund is a multiemployer plan as defined in Section 1002(37).

In January, 1987 a Sherwin-Williams subsidiary purchased 100% of the outstanding stock of Lyons Group, Inc. from the then owners: Lyons Group, Inc. Employee Stock Ownership Plan and Trust and a number of individual shareholders. Lyons Group, Inc. was then the holding company for Lyons Transportation Lines, Inc. ("Lyons"), a less-than-truckload motor carrier. In turn Lyons was obligated to contribute to Fund on behalf of certain eligible employees.

Lyons quickly became a losing proposition for Sherwin-Williams. Having re-evaluated its entry into the less-than-truckload carrier sector, about May 31, 1990 Sherwin-Williams sold the Lyons stock to J.R.C. Acquisition Corp. ("J.R.C.") for a $1.6 million down payment plus an installment obligation of $6.25 million payable over a six-year period, secured by mortgages on Lyons' real property.

Lyons continued to make contributions to Fund until October 12, 1990. Then on October 19, 1990 both J.R.C. and Lyons filed for Chapter 11 bankruptcy. On November

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[7] This District Court's General Rule ("GR") 12(m) and 12(n) respectively require the submission of factual statements in support of and in opposition to Rule 56 motions. Fund complied with those rules by filing a GR 12(m) statement, but Sherwin-Williams has neglected to file anything that even remotely resembles the required submissions. Our Court of Appeals has ruled consistently that the GR 12 requirements may be applied strictly even where the parties have not engaged in the type of willful conduct that might trigger a default judgment (*Johnson v. Gudmundsson*, 35 F.3d 1104, 1108 (7th Cir. 1994)). Thus all facts claimed and adequately supported by Fund may be assumed true by this Court (*Stewart v. McGinnis*, 5 F.3d 1031, 1034 (7th Cir. 1993)), though that really makes no difference in cases such as this where the parties agree on the relevant facts.

30, 1990 Fund assessed Lyons' withdrawal liability at $1,764,339.15 due to what Fund's letter labeled Lyons' "permanent cessation of contributions to Fund, Southeast and Southwest Areas." Fund viewed the Lyons stock sale to J.R.C. as the proximate cause of Lyons' collapse and consequently sought to hold Sherwin-Williams accountable as a member of the commonly controlled group that had included Lyons.

On March 1, 1991, Sherwin-Williams submitted a Request for Review to Fund to contest the assessment of such liability. Sherwin-Williams first asserted that neither it nor Lyons was a member of any controlled group of trades or businesses at the time that Lyons stopped contributing to Fund, because Sherwin-Williams had already sold Lyons in a bona fide transaction. Alternatively Sherwin-Williams argued that it could not be held liable for a complete withdrawal in any event because Dupli-Color, another Sherwin-Williams entity that it had acquired in 1985, continued to contribute to Fund even after the Lyons bankruptcy. Finally, if Sherwin-Williams were to be found liable for a partial withdrawal, the company argued that such liability could not be calculated until the end of 1993 under the three-year provision of Sections 1385(b) and 1386.

It was not until it received a January 22, 1992 letter that Sherwin-Williams learned that Fund had denied its request. As required by Section 1399(c)(2), Sherwin-Williams paid a total of $1,988,989.62 to Fund pursuant to its assessment from March 1991 through January 1993. Then Sherwin-Williams exercised its option under Section 1401(a) to request arbitration of that assessment following the denial of its Request for Review.

Arbitrator Lawrence Katz was assigned to the matter under American Arbitration Association procedures. Arbitrator Katz first determined, in a January 4, 1994 letter ruling, that the issue of Sherwin-Williams' *partial* with-

drawal was not properly before him and that what he had to decide was whether Sherwin Williams had *completely* withdrawn from Fund. In his later Decision the arbitrator held that Sherwin-Williams could not be held liable for a complete withdrawal where other members of the Sherwin-Williams controlled group continued to contribute to Fund. Accordingly Sherwin-Williams was awarded the balance of its contributions under the Lyons assessment plus interest.

Arbitrator's Decision

To facilitate a meaningful review of the Award, this opinion sets out the Decision in some detail. To begin with, the arbitrator construed the disputed facts in favor of Fund. Because in his view Sherwin-Williams' other claims depended in large part on disputed facts (Decision at 4), the single issue before the arbitrator was whether the combination of (1) the stock sale, (2) Lyons' later cessation of operations and (3) Lyons failure to contribute to Fund after filing bankruptcy gave rise to a *complete* withdrawal for which Sherwin-Williams would be liable (Decision at 5).

But even on the assumption that Sherwin-Williams was legally responsible for Lyons' deficiencies under one or both of the theories presented by Fund, the arbitrator held that the sale of Lyons' stock should then be disregarded so that the pre-sale Sherwin-Williams controlled group (including Lyons) remained intact.[8] That would render Sherwin-Williams still financially responsible for whatever withdrawal liability was created by Lyons' failure to contribute to the fund (Decision at 6-7). Arbitrator Katz noted that this is exactly what occurred in another arbitration in New York that had dealt with the same sequence

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[8] As this opinion later reflects, Fund is correct in characterizing that ruling as an impermissible misreading (or misapplication) of the statute.

of events involving Sherwin-Williams and Lyons but that had addressed the relationship between Sherwin-Williams and a different pension fund (*id.*).

But distinguishing the New York arbitration (in which the failure of Lyons to contribute to the fund there had been held to trigger a complete withdrawal), the arbitrator pointed out that Lyons was only one of several entities in the Sherwin-Williams controlled group that had been contributing to Fund. By contrast Dupli-Color, another of the Sherwin-Williams controlled group subsidiaries, continued to contribute to Fund throughout, even after the Lyons bankruptcy. Thus Lyons' cessation of contributions would leave Sherwin-Williams responsible only for a partial withdrawal because at least one other entity in the group continued making payments (Decision at 7). There could be no complete withdrawal, even assuming that Sherwin-Williams remained responsible for Lyons after the stock sale.

Fund sought to avoid that analysis and to establish a complete withdrawal by advancing a bifurcated approach. On the one hand, Fund argued that the instant preceding the stock sale should be the controlling moment for ascertaining the identity of the "employer" in order to decide whether Sherwin-Williams was still responsible for Lyons' later failure to contribute to the fund. On the other hand, Fund contended that the stock sale should be taken into account for the purpose of splitting up the Sherwin-Williams controlled group into (1) a new Sherwin-Williams controlled group (without Lyons) and (2) a new J.R.C./Lyons entity. That then would cause Lyons' cessation of contributions to result in a complete withdrawal, because Lyons would have been the sole contributor to Fund in the new "stand-alone" entity (Decision at 8).

Arbitrator Katz rejected Fund's approach, viewing its argument as both illogical and unsupported by authority (*id.*):

> There are fundamental problems with the Fund's argument. Its asymmetrical approach to the stock sale is neither logical, nor supported by any cited arbitral or judicial precedents. The Fund seeks to pick and choose the consequences which arise from the statutory disqualification of the stock sale. In effect, the Fund wishes the arbitrator to recognize the consequences which work to its advantage (the continuing financial liability of S-W), while disregarding those which work to its disadvantage (the continuation of the pre-sale S-W controlled group).

Because at least one other entity in the Sherwin-Williams controlled group was making contributions to Fund both when the stock sale occurred and afterwards,[9] the arbitrator found that Sherwin-Williams could have been liable only for a partial withdrawal if no sale had occurred and if Lyons had then failed (*id.*). In no event, the arbitrator reasoned, should this case be treated differently simply because there was a non-qualifying stock sale.

MPPAA in General

As first enacted in 1974, ERISA created the Pension Benefit Guarantee Corporation ("PBGC") to administer and enforce a pension plan termination insurance program under which employers were required to pay insurance premiums (*Concrete Pipe & Prods. of California, Inc. v. Construction Laborers Pension Trust for S. Cal.*, 113 S. Ct. 2264, 2272 (1993)). But under those original terms, the guaranty of basic benefits by multiemployer plans in the event of termination was not mandated to take effect until 1978 (*id.*). As the date for mandatory coverage approached, Congress recognized that employers might withdraw from weak plans to escape liability (*id.*). Fear-

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[9] There was a dispute over the status of one other Sherwin-Williams subsidiary, but the statement in the text was concededly accurate as to Dupli-Color.

ing that the insurance system as originally conceived might be jeopardized by such an exodus, Congress postponed the mandatory guaranty date and requested that PBGC analyze the potential threat to multiemployer plans and suggest solutions (*id.*).

In 1980 Congress enacted MPPAA in response to the advice that it had received from the PBGC (*id.*). Its purpose was to hold employers accountable for their vested pension fund liabilities upon their withdrawal from multiemployer plans (*Bell Transit*, 22 F.3d at 707). As the Secretary of Labor testified before Congress (*Multiemployer Pension Plan Amendments Act of 1980: Hearings on H.R. 3904 Before Subcomm. on Labor-Management Relations of the House Comm. on Education & Labor*, 96th Cong., 1st Sess. 362 (1979)):

> [A]n employer that leaves the multiemployer pension plan would be required to pay its fair share of the plan's vested liabilities. The objective of this element is to discourage withdrawals and to provide a financial cushion for the plan which is not now provided by the present system because of the limitations of liability and the absence of any disincentive to withdraw.

Hence an employer that withdraws from a multiemployer pension plan is now held responsible for "a sum approximating the vested but unfunded benefits of the employer's employees" (*Santa Fe Pac. Corp. v. Central States Fund*, 22 F.3d 725, 726 (7th Cir. 1994), citing 29 U.S.C. §§ 1381 et seq.). Technically MPPAA charges the employer with the difference between the present value of vested benefits and the current value of the plan's assets (*Concrete Pipe*, 113 S. Ct. at 2272). That "withdrawal liability" not only protects other employers in the plan from having to pay for those benefits (*Santa Fe*, 22 F.3d at 727) but also operates to avoid the ultimate shifting of such costs to PBGC as the insurer under the plan (*Bell Transit*, 22 F.3d at 707).

To collect withdrawal liability, a plan first calculates the amount owed by a withdrawing employer (Sections 1382 and 1391) and then notifies the employer of the amount due (Section 1399(b)(1)). Any employer that wishes to challenge the assessment of liability may submit a request to the plan for review (Section 1399(b)(2)) and may initiate arbitration if dissatisfied with the results (Section 1401(a)(1)). Throughout the proceedings, however, the plan's determination of liability is presumed correct unless the party contesting the determination can establish by a preponderance of the evidence that the determination is unreasonable or clearly erroneous (Section 1401(a)(3)(A)).[10]

Not all employers who withdraw from a plan must pay withdrawal liability (*Bell Transit*, 22 F.3d at 707). *Connolly v. PBGC*, 475 U.S. 211, 225-26 (1986) teaches:

> The assessment of withdrawal liability is not made in a vacuum, however, but directly depends on the relationship between the employer and the plan to which it had made contributions. Moreover, there are a significant number of provisions in the Act that moderate and mitigate the economic impact of an individual employer's liability.

Thus, for example, Section 1398 provides that a mere change in corporate structure does not of itself trigger employer withdrawal liability. But it is also true that *no* transaction will be favored with an exemption where a principal purpose is the evasion or avoidance of withdrawal liability (Section 1392(c)).

Given the limited scope of the current issues, however, this opinion will join the arbitrator in his view that neither of those two sections is directly applicable to the trans-

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[10] In the interim neither the request for review nor the demand for arbitration tolls the employer's duty to pay on the assessment (*Bell Transit*, 22 F.3d at 707).

actions at issue (though this Court cautions that it does not share the arbitrator's reading of those sections). With that background, this opinion cuts to the chase.

Liability for Complete Withdrawal

When issues of statutory interpretation are brought before a court, the appropriate place to begin is of course with the statutory language (*Bell Transit*, 22 F.3d at 710).[11] In that respect *Central States Fund v. Cullum Cos.*, 973 F.2d 1333, 1339 (7th Cir. 1992) repeats the message of *Central States Fund v. Bellmont Trucking Co.*, 788 F.2d 428, 433 (7th Cir. 1986):

> When Congress enacted the MPPAA, it "did not merely select a broad policy goal and instruct the courts to achieve that objective. Rather, Congress itself decided what rules, and exceptions to those rules, would best achieve its goals."

And to that end the words of the statute should normally be given their common meanings (*Smith v. United States*, 113 S. Ct. 2050, 2054 (1933)).

First among the relevant statutory provisions, Section 1383(a) sets out the instances in which a complete withdrawal occurs:

> For purposes of this part,[12] a complete withdrawal from a multiemployer plan occurs when an employer—

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[11] *Trustees of Iron Workers Local 473 Pension Trust v. Allied Products Corp.*, 872 F.2d 208, 212-13 (7th Cir. 1989) thus looked to the plain language of the statute without regard to legislative history in deciding whether Section 1383(a)(2)'s determination that a complete withdrawal occurs when an employer "permanently ceases all covered operations under the plan" should be satisfied when the employer ceased "virtually all" covered operations.

[12] [Footnote by this Court] "This part" refers to the "Employer Withdrawals" portion of Subtitle E of the "Plan Termination Insurance" subchapter of Title 29—more specifically "this part" comprises Sections 1381 through 1405.

> (1) permanently ceases to have an obligation to contribute under the plan, or
>
> (2) permanently ceases all covered operations under the plan.

"Employer" is in turn defined in Section 1301(b)(1):

> For purposes of this subchapter,[13] under regulations prescribed by the corporation [PBGC], all employees of trades or businesses (whether or not incorporated) which are under common control shall be treated as employed by a single employer and all such trades and businesses as a single employer.

Read together, those provisions make it clear "that trades and businesses under common control are to be treated as a single entity and are jointly and severally liable for each other's withdrawal liabilities" (Ronald Cooke, *ERISA Practice & Procedure* § 7.47, at 7-142 (1994) and cases cited there). To determine whether a complete withdrawal has occurred, "contributions of the entire commonly controlled group must be taken into account by the plan sponsor" (PBGC Op. 82-13, 1992 PBGC LEXIS 28, at *3 (Apr. 12); see also PBGC Op. 92-1, 1992 PBGC LEXIS 1, at *4-*5 (Mar. 30)).[14]

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[13] [Footnote by this Court] "This subchapter" refers to the entire "Plan Termination Insurance" subchapter of Title 29: Sections 1301 through 1461.

[14] Absent compelling indications that the interpretation of a statute by the agency charged with its execution is wrong, courts may view such interpretations as definitive guides (over a quarter century ago *Red Lion Broadcasting Co. v. FCC*, 395 U.S. 367, 381 (1969) characterized that as an already "venerable principle"). PBGC opinions are normally accorded the same deference that is shown to the decisions of other federal regulatory agencies (see *Robbins v. Pepsi-Cola Metropolitan Bottling Co.*, 636 F. Supp. 641, 654 n.23 (N.D. Ill. 1986)). And that should apply with particular force where PBGC (which might be deemed an interested party) has issued decisions that cut *against* finding liability for complete withdrawal.

Of course corporations in a parent-subsidiary relationship present the paradigmatic example of trades or businesses under common control. So if a subsidiary withdraws from a plan, its withdrawal liability (if any) can plainly be assessed against its parent (*Santa Fe*, 22 F.3d at 727).

Even though the two already-quoted provisions (Sections 1383(a) and 1301(b)(1)) speak to the concepts of "complete withdrawal" and "employer," they do not necessarily answer the question posed here: whether the complete withdrawal of an "employer" (in this instance Lyons and any commonly controlled post-stock-sale entities) can impose MPPAA liability on any of the other companies that were part of the pre-stock sale "employer" (in this instance Sherwin-Williams). On that subject both litigants (and the arbitrator) have sought to draw inferences from Sections 1392(c) and 1398:

§ 1392(c):

> If a principal purpose of any transaction is to evade or avoid liability under this part,[15] this part shall be applied (and liability shall be determined and collected) without regard to such transaction.

§ 1398:

> Notwithstanding any other provision of this part,[16] an employer shall not be considered to have withdrawn from a plan solely because—
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> 1. an employer ceases to exist by reason of—
>
> (A) a change in corporate structure described in section 1362(d) of this title, or

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[15] [Footnote by this Court] As n. 12 indicates, "this part" comprises Section 1381 through 1405.

[16] [Footnote by this Court] *Ibid.*

(B) a change to an unincorporated form of business enterprise, if the change causes no interruption in employer contributions or obligations to contribute under the plan, or

2. an employer suspends contributions under the plan during a labor dispute involving its employees.

For purposes of this part, a successor or parent corporation or other entity resulting from any such change shall be considered the original employer.

Arbitrator Katz resolved the question identified in the preceding paragraph of the text by stating that if Fund's assertion about Sherwin-Williams having caused the drying up of Lyons' contributions by having sold Lyons' stock is to be accepted, the sale of stock should be disregarded for all purposes relating to withdrawal liability. With all respect, that is just wrong. Congress well knew how to mandate such a result when it wanted to—Section 1392 (c) shows that. But Section 1398 contains no such rule, and this Court cannot insert one where Congress has not.

Next, according to the arbitrator (Decision at 5):

> In the instant case, S-W's basic position is that its May 31, 1990 sale of Lyons' stock was qualifying under § 1398, and not subject to disqualification under § 1392.

It is difficult to tell from Sherwin-Williams' filings before this Court whether that accurately characterizes its position—but if it does, that too is wrong. Section 1398 just does not describe the transactions that have given rise to this litigation.

What controls here, however, is that in terms of the controlling statutory provisions it is *Fund* that is wrong.

There is no complete withdrawal under Section 1383(a) unless the statutory "employer" permanently ceases to have any contribution obligation or permanently ceases all covered operations under the relevant plan. And because that did not occur as to the entire Sherwin-Williams conglomeration that constituted the statutory "employer" under Section 1301(b)(1), and because Dupli-Color has always been part of that conglomeration and a contributor to Fund, no statutory "complete withdrawal" can be found here.

2 *Labor & Employment Arbitration* § 40.04[10], at 40-95 to 40-96 (Tim Bornstein & Ann Gosline eds., 1994) puts the statutory mandate simply:

> [A]ll commonly controlled entities must be taken into account in determining whether there has been a withdrawal. For example, there can be no complete withdrawal from a fund as long as any member of a commonly controlled group remains a contributing employer to that fund.

Penn Cent. Corp. v. Western Conference of Teamsters Pension Trust Fund, 863 F. Supp. 1131, 1134 (N.D. Cal. 1994) (emphasis added) makes the same point in an analogous context:

> Here, it is undisputed that G.K. Trucking, Marathon Steel, and Buckeye Gas were under the common control of Penn Central until the sale by Penn Central of Buckeye Gas to the Ferrell Group. Prior to that sale, the cessation of operations under the Plan by G.K. Trucking and Marathon Steel generated a withdrawal liability of $60,618 to the Plan. This sum was G.K. Trucking and Marathon Steel's proportional share of the Fund's vested benefit shortfall attributable to their employees and operations. *Complete withdrawal liability was not assessable, however, at the time these two subsidiary corporations permanently ceased oper-*

> *ations under the Plan because Penn Central, their parent and the "employer" under ERISA § 4001 (b)(1), continued to contribute to the Fund on behalf of Buckeye Gas.*

See also *Western Dominion Coal Co. & UMW 1950 & 1974 Pension Plans,* 6 Employee Benefits Cas. (BNA) 2353, 2369 (1985) (Gordon, Arb.).

Indeed, Fund's R. Mem. 14 n.7 (emphasis added) openly concedes that it urged a position contrary to its present one before one of this Court's colleagues in an unrelated case only two years ago:

> Sherwin-Williams is correct in noting that in *Santa Fe Pacific v. Central States,* 1992 U.S. Dist. Lexis 15159 (N.D. Ill. 1992), *reversed,* 22 F.3d 725 (7th Cir. 1994), the Pension Fund asserted that a non-qualifying stock sale resulted in a partial withdrawal (S-W 12/21/94 Memo, p. 17).[17]

While Fund is not legally precluded from arguing a different position in the matter before this Court, its current vigorous opposition to Arbitrator Katz's conclusion might perhaps be considered a bit suspect.

But what has been said to this point should not be misunderstood. Any syllogistic approach that is based solely on the two statutory provisions defining "complete withdrawal" and "employer" is somewhat simplistic in relation to the specific situation before this Court, a situation that so far as this Court is aware presents a question of first impression. It cannot be gainsaid that MPPAA does *not* speak in direct terms to the scenario that has been alleged by Fund—a scenario that must be credited

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[17] [Footnote by this Court] Fund's sole attempt to distinguish *Santa Fe* is to argue that the technical assessment of partial as opposed to complete withdrawal in that case made little difference because the recovery sought under either theory would have been roughly the same.

as true on the present motions. And on its side Sherwin-Williams has done little more than to iterate and reiterate several wholly unpersuasive contentions, apparently in the hope that such repetition will take the place of careful analysis.

This Court has wrestled conceptually with what is to be treated as a given for current purposes: Fund's allegation that Sherwin-Williams' sale of Lyons' stock *caused* the ensuing collapse of Lyons as a Fund contributor. For purposes of analysis that allegation collapses the time interval between the stock sale and the cessation of contributions, so that in legal contemplation the situation is just as though Sherwin-Williams sold the Lyons stock and Lyons' Fund contributions ceased immedately. There is no question that Lyons' cessation of contributions resulted in a complete withdrawal from Fund by *Lyons* and its commonly-controlled group (the group created by the sale of stock to J.R.C.). And although Fund has not put the legal issue in these terms, the question then really becomes whether a parent company whose conduct has directly caused its subsidiary to trigger multi-million dollar MPPAA liability may itself be held liable for its own conduct in having done so.

So put, the question is not so simple. It demands an inquiry that stretches beyond the two statutory provisions that have been discussed at length here. What has clinched a negative answer to the question for this Court is that such an attempt to impose liability on Sherwin-Williams would really be *non*-statutory in nature, calling for the judicial recognition of an implied private cause of action where Congress has not expressly created one. And on that score the Supreme Court's increasing reluctance to recognize such implied rights of action should control here. In light of the intricate statutory structure of MPPAA, what was said in *Massachusetts Mut. Life Ins. Co. v. Russell*, 473 U.S. 134, 146-47 (1985) (citations omitted) about ERISA seems equally applicable to this case by parity of reasoning:

> The six carefully integrated civil enforcement provisions found in § 502(a) of the statute as finally enacted, however, provide strong evidence that Congress did *not* intend to authorize other remedies that it simply forgot to incorporate expressly. The assumption of inadvertent omission is rendered especially suspect upon close consideration of ERISA's interlocking, interrelated, and interdependent remedial scheme, which is in turn part of a "comprehensive and reticulated statute."
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> * * * *
>
> We are reluctant to tamper with an enforcement scheme crafted with such evident care as the one in ERISA. As we stated in *Transamerica Mortgage Advisors, Inc. v. Lewis*, 444 U.S. 11, 19 (1979): "[W]here a statute expressly provides a particular remedy or remedies, a court must be chary of reading others into it." "The presumption that a remedy was deliberately omitted from a statute is strongest when Congress has enacted a comprehensive legislative scheme including an integrated system of procedures for enforcement."

Accord, *Mertens v. Hewitt Associates*, 113 S.Ct. 2063, 2067 (1993), citing and quoting *Massachusetts Mut.* in part; and accord in the MPPAA context, *Bellmont Trucking*, 788 F.2d at 433; *Teamsters Pension Trust Fund v. Central Mich. Trucking, Inc.*, 857 F.2d 1107, 1111 (6th Cir. 1988).

In summary, Fund's assertion of Sherwin-Williams' complete withdrawal liability does not carry the day. Each side has recognized the potential for Sherwin-Williams' liability for *partial* withdrawal, but that liability is not yet ripe. Hence Sherwin-Williams prevails in the narrow scope of the current lawsuits.

Attorney's Fees

Sherwin-Williams asks this Court to shift to Fund the burden of Sherwin-Williams' attorney's fees and expenses both for the arbitration and for these actions. Because those claims involve differing standards of review, they will be dealt with separately.

Fees for the Arbitration

Arbitrator Katz was empowered to award reasonable attorney's fees to either party at the conclusion of the arbitration proceeding (Section 1401(a)(2)). For that purpose the relevant standard is set out in 29 C.F.R. § 2642.9(c):

> *Attorney's Fees.* The arbitrator may require a party that initiates or contests an arbitration in bad faith or engages in dilatory, harassing, or other improper conduct during the course of the arbitration to pay reasonable attorney's fees of other parties.

Here is what Arbitrator Katz said in refusing to shift fees (Decision at 12):

> Unlike the proceeding involving this Employer and the New York State Teamsters Fund, this proceeding has involved complex questions of multiple contributing entities within the S-W controlled group, and possible multiple triggers or events of withdrawal. In this context, questions as to whether and when withdrawals occurred, the nature of the withdrawals (complete or partial) and S-W's financial responsibility for any resulting liability, are hardly clear-cut.
>
> * * * *
>
> I find no basis for allocating attorney's fees and costs or the arbitrator's fees against the Fund. Each party shall be responsible for its own attorney's fees and costs and for half of the arbitrator's fee.

That plainly reflects the arbitrator's judgment that both parties had offered up good faith arguments for their competing approaches to determining withdrawal liability under MPPAA. Though clearly aware of Fund's earlier espousal of a different view in *Santa Fe* (Decision at 10), the arbitrator refused to find misconduct on Fund's part for advancing a novel position in the instant case. This Court will not overturn that decision.

Fees Before This Court

Section 1451(e) authorizes an award of reasonable attorney's fees and expenses to the prevailing party unless the losing party's position was "substantially justified" (*Construction Indus. Retirement Fund of Rockford v. Kasper Trucking, Inc.*, 10 F.3d 465, 469 (7th Cir. 1993)). *Bittner v. Sadoff & Rudoy Indus.*, 728 F.2d 820, 830 (7th Cir. 1984) first established that standard: [18]

> [W]e turn for a useful analogy to the Equal Access to Justice Act, 28 U.S.C. § 2412(d)(1)(A), which entitles a prevailing party in many types of suit against the government to a reasonable attorney's fee "unless the court finds that the position of the United States was substantially justified or that special circumstances make an award unjust." These words create a modest presumption (modest because of the "special circumstances" exception) in favor of awarding reasonable attorney's fees to the winning party, plaintiff or defendant, unless the loser's position, while rejected by the court, had a solid basis—more than merely not frivolous, but less than meritorious.

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[18] While *Bittner* dealt with Section 1132(g)(1) (applicable to conventional ERISA enforcement actions), *Continental Can Co. v. Chicago Truck Drivers, Helpers & Warehouse Workers Union (Independent) Pension Fund*, 921 F.2d 126, 127 (7th Cir. 1990) has confirmed the application of the same principle to actions brought under Section 1451(e).

It should be plain from all that has gone before that in these cases the parties have essentially been asking this Court to write on a clean slate. Neither has been able to adduce authority on the special circumstances posed in this case: not just the cessation of contributions by a subsidiary, but such a cessation caused directly by its parent's action in selling the subsidiary's stock so as to disable the subsidiary financially. What the arbitrator said in Decision at 12 (quoted earlier in this opinion) about the complexity and non-clear-cut nature of the questions dealt with here applies with at least equal force at this stage of the parties' dispute.

Conclusion

Fund's motion to vacate or modify the Award is denied, while Sherwin-Williams' motion to enforce the Award is granted. Sherwin-Williams' additional motions (1) to modify the Award and (2) to obtain an award of attorney's fees and expenses relating to these actions are denied. Both these actions have now been dealt with in their entirety.

/s/ Milton I. Shadur
MILTON I. SHADUR
Senior United States District Judge

Date: March 15, 1995

APPENDIX C

AMERICAN ARBITRATION ASSOCIATION

MULTI-EMPLOYER PENSION PLAN ARBITRATION TRIBUNAL

Case No. 51 621 0009 91 V

THE SHERWIN-WILLIAMS COMPANY

-and-

CENTRAL STATES, SOUTHEAST & SOUTHWEST AREAS PENSION FUND

ARBITRATION DECISION

Re: Motion to Dismiss or for Summary Judgment

Arbitrator: Lawrence E. Katz, Esq.

BACKGROUND

Relevant background facts have already been set forth in the Interim Decision of December 9, 1993, regarding the scope of the proceeding. In that Decision, the arbitrator concluded that this proceeding would include the complete withdrawal issue(s) attendant to Lyons' cessation of contributions, as well as any lesser-included partial withdrawal issues involving the Sherwin-Williams (S-W) controlled group, attributable to Lyons. But it was further held that any issues involving Terminal's cessation of contributions, including any partial withdrawals at-

tributable thereto (in whole or in part) would be excluded from this proceeding.

After the issuance of the Interim Decision, the matter was scheduled for an evidentiary hearing from January 18-21, 1994. In late December, the Employer sought a postponement of the hearing to enable its expert witness(es) to further prepare with respect to certain "equitable solvency" issues attendant to the stock sale, and, as more relevant hereto, to prepare the instant Motion to Dismiss, based on its contention that on any state of facts, there had been neither a complete withdrawal or a partial withdrawal. The Fund objected to the postponement. It also noted that if its complete withdrawal arguments were rejected, it intended to argue that Lyons' cessation of contributions gave rise to a "70% contribution decline" partial withdrawal (under 29 U.S.C. § 1385 (a)(1)); however, it did not intend to argue that there had been a "partial cessation of contributions" partial withdrawal (under 29 U.S.C. § 1385(a)(2)).[1]

By letter ruling dated January 4, 1994, the arbitrator granted the requested postponement, noting in pertinent part that "there is one scenario under which there may be no immediate need for such an evidentiary hearing—

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[1] As indicated in the Interim Decision, p. 2, n. 1, the Fund would not have been able to calculate the amount of withdrawal liability attributable to a "partial cessation of the contribution obligation" for at least another year (after December 31, 1991); and it would not have been able to calculate the amount of withdrawal liability attributable to a "70%-decline" partial until after the end of the so-called "three-year testing period" (December 31, 1993).

Apparently, the Fund believes that the requirements for a 70%-decline partial were met by December 31, 1993. Thus, it indicated its intention to proceed under such a theory of liability. But it has declined to pursue the more immediate types of partial withdrawals, set forth in § 1385(b)(2)(A)(i) and (ii) (so-called "bargaining agreement cessation" and "facility cessation," respectively), in seeming recognition of the fact the that employer (*i.e.*, the S-W controlled group) had not met the stautory prerequisites with respect to the ongoing performance of covered work.

i.e., if the 70% contribution decline issue is not properly included in this proceeding, and if there has been no complete withdrawal." The arbitrator further concluded that the 70% decline issue was not included within the scope of the instant proceeding, which arose out of the Fund's January 16, 1991 assessment (whereas, as noted above, a 70% decline partial withdrawal assessment could not be made until the end of the three-year testing period —*i.e.*, on or after December 31, 1993).

Thus, the only question which remains for purposes of the instant "Motion to Dismiss or, in the Alternative, Motion for Summary Judgment" is whether the facts, construed most favorably to the Fund,[2] could be viewed as giving rise to a complete withdrawal, rather than a partial withdrawal. As indicated in the January 4, 1994 letter ruling, for purposes of that Motion, we must assume *arguendo* that S-W remained responsible for Lyons, notwithstanding the sale of stock, either because the sale of stock caused the subsequent interruption in employer contributions to the Fund, so that it would be non-qualifying under 29 U.S.C. § 1398(1); or, because it was intended to "evade or avoid" withdrawal liability under 29 U.S.C. § 1392(c). *See, e.g., Sherwin-Williams Co. & N.Y. State Teamsters Pension Fund*, 17 EBC 2725 (Gertner, Arbr., February 7, 1994), *app. pending* (finding in favor of a sister Fund, which had claimed that one of the principal purposes of S-W's sale of the Lyons stock was to evade or avoid withdrawal liability under § 1392(c));[3] *see also*,

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[2] "For purposes of a motion to dismiss, we accept the plaintiff's well-pleaded allegations as true and view them, together with the reasonable inferences to be drawn therefrom, in the light most favorable to the plaintiff." *Banner Industries, Inc. v. Central States Pension Fund*, 657 F. Supp. 875 (N.D. Ill 1987) (citation omitted).

[3] The arbitration involving the New York Fund appears to have been somewhat less complicated than that herein in that no argument appears to have been made that the stock sale was non-qualifying under 29 U.S.C. § 1398(1). Also, since Lyons appears to have been the only member of the alleged S-W control group

Santa Fe Pacific Corp. v. Central States Pension Fund, 22 F. 3d 725, 18 EBC 1010 (7th Cir. 1994) (finding parent company liable for subsidiary's withdrawal liability, where leveraged stock sale of subsidiary had a principal purpose of evading or avoiding that liability); *Banner Industries, Inc. & Central States Pension Fund*, 11 EBC 1149 (Graham, Arbr. 1989), *vacated by settlement*, 12 EBC 1992 (1990) (finding parent company liable for subsidiary's withdrawal liability, where ESOP stock sale transaction had a principal purpose of evading or avoiding that liability).

Notwithstanding the above-noted principle of construing any disputed facts in the light most favorable to the Fund, the Employer has still sought to argue that the instant sale of stock was qualifying, rather than nonqualifying under § 1398(1); and therefore, that there can be no finding that evasion or avoidance of liability was a principle purpose of the transaction under § 1392(c); and therefore, that no withdrawal may be deemed to have occurred at the time of the sale, and that any subsequent withdrawal is no longer the responsibility of S-W.

However, I do not believe these issues are capable of summary determination. Rather, they depend in large part, upon disputed facts and the inferences which may reasonably be drawn therefrom. Moreover, even if the Employer might prevail under § 1398 itself, the sale might still be ignored if the Fund's "evade/avoid" claim under § 1392(c) were upheld (as in the above-cited cases involving the New York Fund, as well as *Santa Fe Pacific* and *Banner*). Thus, our earlier analysis remains applicable. We must assume for purposes of the instant

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making contributions to the New York Fund, when its contributions ceased, a complete withdrawal would have occurred, rather than the partial withdrawal(s) which may have occurred with respect to the Central States Fund (in view of the ongoing contributions which other S-W controlled group entities were making to the instant Fund).

Motion that the Fund would be able to marshall facts which will enable it to prevail on at least one of the above-noted theories, so that S-W would remain responsible for Lyons' cessation of operations and/or contributions, notwithstanding the sale of stock.

Thus, the one issue which remains for purposes of this Motion is whether, under any state or assumed facts, the May 31, 1990 sale of stock and/or Lyons' subsequent cessation of operations and/or contributions could have given rise to a complete withdrawal (as the Fund argues); or whether it could only have given rise to a partial withdrawal (as the Employer argues).

DISCUSSION AND DECISION

When there is a qualifying sale of stock of a member of controlled group of companies (under § 1398), which is not subject to disqualification under the "evade/avoid" clause (§ 1392), the pre-sale controlled group ceases to exist. Instead it is treated as having been split up into two new entities—(1) a new version of the original controlled group (which would now exclude the company whose stock was sold); and (2) the sold company (or the controlled group to which it now belongs, if any).

In the instant case, S-W's basic position is that its May 31, 1990 sale of Lyons' stock was qualifying under § 1398, and not subject to disqualification under § 1392. Thus, it maintains that on and after May 31, 1990, the pre-sale S-W controlled group (which included Lyons) ceased to exist. Instead, there was (1) a new, post-sale S-W controlled group (which excluded Lyons) and (2) Lyons/JRC (either as a "stand-alone" entity or as part of a multi-entity JRC controlled group[4]). Thus, any

[4] As far as appears from the evidence of record, following the sale Lyons would have been a stand-alone entity. It does not appear that there were any other entities within the JRC group making contributions to the instant Fund. The cessation of operations/contributions of such a stand-alone entity would give rise to a complete withdrawal.

subsequent withdrawal on the part of Lyons would be the responsibility of Lyons/JRC and not S-W. *See, e.g., Philadelphia Teamsters Pension Fund v. Central Michigan Trucking, Inc.*, 857 F. 2d 1107 (6th Cir. 1988) (holding that parent corporation which spun-off subsidiary in a qualifying stock sale under § 1398, was not liable for subsidiary's withdrawal, occurring some four years later).

Due to the apparent insolvency of Lyons/JRC, as well as its view of the underlying stock sale, the Fund would prefer to look to the relatively deeper pockets of S-W for payment; hence, the November, 1990 assessment to Lyons was re-issued to S-W in January, 1991. But in order for S-W to be financially responsible for the Lyons withdrawal, the Fund has alleged, as indeed it must, that the stock sale was non-qualifying under § 1398 and/or that one of its primary purposes was to evade or avoid withdrawal liability under § 1392. If the Fund prevails on either of these theories, then (1) the stock sale would be disregarded; (2) the pre-sale S-W controlled group (including Lyons) would remain intact; and (3) S-W would remain financially responsible for Lyons' contribution history and/or any attendant withdrawal liability.

This is precisely what occurred in the above-cited arbitration involving S-W and the New York Fund. However, as noted above (p. 4, n. 3), since Lyons appears to have been the only entity within the S-W controlled group making contributions to the New York Fund, its cessation of operations gave rise to a complete withdrawal (for which S-W remained responsible).

In contrast, Lyons was only one of several S-W controlled group entities making contributions to the Central States Fund. Thus, if Lyons ceased operations and contributions, but one or more of the remaining S-W entities continued to make contributions, it would appear that a partial withdrawal, rather than a complete withdrawal would have occurred (for which S-W would be responsi-

ble). *See*, Jaffe & Nagle, *MEPPAA Withdrawal Liability*, 2 Labor & Employment Arbitration, § 40.04[10] (Bornstein & Gosline, eds. 1993) at pp. 40-95–40-96 (indicating ". . . there can be no complete withdrawal from a fund as long as any member of a commonly controlled group remains a contributing employer to that fund"). *See also*, *Robbins v. Pepsi-Cola Metropolitan Bottling Co.*, 636 F. Supp. 641, 653, nn. 19-20 (N.D. Ill. 1986) (indicating that the use of the controlled group concept may produce different results than those obtained if each separate entity is considered on a corporation-by-corporation basis; thus, activities which might constitute a complete withdrawal for a stand-alone corporation, might only constitute a partial withdrawal if that corporation were part of a controlled group).

The Fund seeks to avoid the above analysis by arguing that the Lyons stock sale should be disregarded for purposes of determining S-W's financial responsibility, but that it should be taken into account for purposes of determining whether a partial or compete withdrawal occurred. In this latter regard, the Fund wants the sale to be recognized for purposes of splitting up the pre-sale S-W controlled group, so that a new Lyons/JRC entity will be considered to exist. Then, with such a split-off having been recognized, the Fund maintains that the ensuing cessation of operations of the new, "stand-alone" entity (*see*, n. 4, *above*), would give rise to a complete withdrawal rather than a partial withdrawal. Moreover, under this scenario, once the split-off Lyons/JRC group is recognized as an independent entity, the complete withdrawal claim is not defeated due to the continuation of contributions from one other entity (Dupli-Color) within the now-separate S-W controlled group.

There are fundamental problems with the Fund's argument. Its asymmetrical approach to the stock sale is neither logical, nor supported by any cited arbitral or judicial precedents. The Fund seeks to pick and choose

the consequences which arise from the statutory disqualification of the stock sale. In effect, the Fund wishes the arbitrator to recognize the consequences which work to its advantage (the continuing financial liability of S-W), while disregarding those which work to its disadvantage (the continuation of the pre-sale S-W controlled group).

On the facts presented herein with respect to the S-W controlled group as it existed prior to May 31, 1990 (when the stock sale occurred), other entities were making contributions to the instant Fund (Dupli-Color and/or Terminal Garage [5]). Thus, if there had never been a sale of the Lyons stock, the cessation of the Lyons operation and/or contributions in October, 1990 would only have led to a partial withdrawal; but it would not have led to a complete withdrawal of the S-W controlled group. It makes little sense for the result to be different simply because a non-qualifying sale of the Lyons stock occurred on or about May 31, 1990.

When a stock sale is non-qualifying (under § 1398 and/or § 1392), the pre-sale controlled group will not be considered to have been split-up; rather, it will be considered to have remained intact. This continuation of the control group has at least two consequences. First, as the Fund recognizes, the seller would continue to be financially responsible for any withdrawal liability arising out of a cessation of operations or contributions of the entity which was sold. Second, although the Fund declines to recognize it, since the intended splitting-off of the sold entity cannot be recognized, that entity effectively remains part of the controlled group; thus, in determining whether the sold entity's cessation of operations or contributions would lead to a partial or complete withdrawal, one would have to consider it as part of the overall controlled group.

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[5] As indicated in the Interim Decision (p. 4), there was a cessation of operations and contributions involving Terminal in November or December, 1990, after Teamsters Local 507 was decertified as the bargaining agent.

Notwithstanding the above-noted logic, the Fund argues in this proceeding that "the *only* type of withdrawal that can result by virtue of the failure of a transaction to qualify for an exemption under § 1398 is a complete withdrawal" (Opposition Memorandum, p. 2). It further argues that the sale itself (on May 31, 1990), rather than the cessation of operations and contributions (some 4-5 months later), constituted the event which triggered the instant withdrawal.

With respect to the latter argument, even if we assume, as the Fund has argued, that the stock sale was a "formula for disaster" which was a substantial cause of Lyons' subsequent demise, it appears questionable whether the sale itself would have resulted in a withdrawal. But even if a withdrawal occurred at that time, it could not be considered a complete withdrawal unless Lyons had somehow become a stand-alone entity, separate and independent from the S-W controlled group (since one or more other entities within the control group continued to contribute to the Fund). However, this independence on Lyons' part could only be achieved if, contrary to the Fund's other arguments, a qualifying stock sale, rather than a non-qualifying stock sale, had occurred. (Moreover, as indicated previously, if such independence had been achieved, it would have had the undesirable consequence, from the Fund's point of view, of relieving S-W of its financial responsibility for Lyons).

With respect to the Fund's former argument, it is conceivable that a subsequent cessation of operations/contributions on the part of an entity sold in a non-qualifying stock sale would give rise to a complete withdrawal, *if* no other entities within the controlled group were making contributions to the fund. This appears to have been the situation in the above-cited arbitration involving S-W Lyons and the New York Teamsters Fund (p 3, above); *see also, Banner Industries arbitration*, p. 4, *above*; *prior proceedings*, cited *above*, p. 2, n. 3 (the District Court

indicated at p. 877, n. 3, that the parties agreed that any withdrawal which occurred was a complete withdrawal).

However, where, as here, the controlled group includes other contributing entities in addition to the entity sold in the non-qualifying stock sale, the cessation of that entity's operations/contributions would only give rise to a partial withdrawal. Moreover, the instant Fund appears to have recognized this point in the arbitration and litigation involving the Santa Fe Pacific Corporation (SFPC) controlled group (cited *above*, p. 4). *See also*, prior proceedings, 1992 U.S. Dist. LEXIS 15159 (N.D. Ill. 1992).

In that case, the pre-sale commonly-controlled group consisted of at least two subsidiary entities which made contributions to the Fund—Santa Fe Terminal (Terminal)[6] and Santa Fe Trails Transportation Company (SFTT). In 1984, SFPC sold SFTT in a leveraged stock sale (but it retained Terminal, which, appears to have continued making contributions to the Fund). SFTT went backrupt a year later. Although the exact nature of the Fund's assessment is not clear from the reported decisions, it appears that one of its theories before the District Court (if not the arbitrator) was that a non-qualifying sale of the SFTT stock would have left SFPC liable for the partial withdrawal attributable to a 70% contribution decline within the SFPC controlled group (seemingly due to SFTT's cessation of contributions; however, a decline in Terminal's contributions may have been a contributing factor). 1992 U.S. Dist. LEXIS 15159, pp. 4-5. This suggests that even the instant Fund has recognized that partial withdrawals, as well as complete withdrawals, may occur when there is a non-qualifying stock sale of one entity within a commonly-controlled group.

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[6] This Santa Fe Terminal entity shares a common word with the Terminal Garage entity which was part of the S-W controlled group; but other than that, S-W's Terminal entity and the SFPC's Terminal entity are completely separate.

CONCLUSION

Even when the facts are construed most favorably to the Fund, they do not permit the conclusion that a complete withdrawal occurred. Rather, to the extent that S-W is claimed to be responsible for the withdrawal liability arising out of the Lyons stock sale and/or Lyons' cessation of operations and contributions, that is because the pre-sale S-W controlled group is considered to have remained intact, without the split-off of Lyons being recognized Since no complete withdrawal occurred, the instant Motion to Dismiss or For Summary Judgment must be granted.

Contrary to the Employer's arguments, however, this conclusion does not mean that the Fund's January, 1991 assessment was frivolous or careless. Unlike the proceeding involving this Employer and the New York State Teamsters Fund, this proceeding has involved complex questions of multiple contributing entities within the S-W controlled group, and possible multiple triggers or events of withdrawal. In this context, questions as to whether and when withdrawals occurred, the nature of the withdrawals (complete or partial) and S-W's financial responsibility for any resulting liability, are hardly clear-cut.

In view of the instant ruling, the Fund will not have the opportunity in this proceeding to prove its claim that S-W remained financially responsible for Lyons. However, as indicated in the letter ruling of January 4, 1994 (p. 2), the Employer will have to answer that claim in one of the proceedings involving the various members of the S-W controlled group.

Thus, while the granting of this motion to dismiss means that the Fund must return those portions of the assessment which it has collected (plus interest),[7] I find no basis for

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[7] To the extent some of the subsequent assessments involving the S-W controlled group may have been deemed to overlap the instant

allocating attorney's fees and costs or the arbitrator's fees against the Fund. Each party shall be responsible for its own attorney's fees and costs and for half of the arbitrator's fee.

/s/ Lawrence E. Katz
LAWRENCE E. KATZ, ESQ.
Arbitrator

Newton, Mass.
September 12, 1994

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assessment, it appears that the Fund may have suspended the Employer's obligation to pay the latter assessments, pending the conclusion of this proceeding. If so, rather than refunding the Employer's payments, it may be appropriate for them to be applied towards the subsequent assessment.

APPENDIX D

82-4

[PBGC Logo] § 4218(1)(A)

Pension Benefit Guaranty Corporation
2020 K Street, N.W., Washington, D.C. 20006

[Feb. 10, 1982]

Re: Opinion Letter Regarding Withdrawal Liability Under the Multiemployer Pension Plan Amendments Act of 1980

We have received your letter in which you asked the Pension Benefit Guaranty Corporation ("PBGC") to rule on several issues arising under the provisions of the Multiemployer Pension Plan Amendments Act of 1980 (the "Act") as they apply to the transactions described in your letter and certain provisions which you propose to include in the sales agreement between the parties involved in those transactions. (Section references hereinafter are to the Employee Retirement Income Security Act of 1974 ("ERISA"), 29 U.S.C. § 1001 *et seq.*, as amended by the Act).

It is clear under the Act that the initial responsibility for determining whether any particular action constitutes a withdrawal from a multiemployer plan, and the amount of any liability resulting therefrom, lies with the plan sponsor. The Act further provides that any disputes between a plan sponsor and an employer on these issues are to be resolved first through arbitration and then, if necessary, in the courts. Given this scheme for enforcement of the Act, it would be inappropriate for the PBGC to interject itself in such a determination by issuing an opinion on the application of the law to these particular transactions. The PBGC,

however, will continue its practice of answering legal questions regarding the Act.

In that regard we point out that the sale by a parent corporation of the stock of a subsidiary corporation presents a question of statutory interpretation that we feel is appropriate to address. The legislative history to the Act contains the following example which indicates that there is no withdrawal liability solely as a result of a sale by a parent of stock of a subsidiary which was obligated to contribute to a multiemployer plan and continues such contributions after the sale:

> "The bill treats an employer as withdrawing from a multiemployer plan when the employer (1) permanently ceases to have an obligation to contribute under the plan, or (2) permanently ceases all covered operations under the plan. A withdrawal does not occur, however, where an employer ceases to exist merely by reason of a change in form or structure, as long as the employer is replaced by a successor employer and there is no interruption in the successor employers' contributions to the plan or obligation to contribute under the plan. A group of trades or businesses under common control is treated as a single employer. For example, if P Corporation owns 100 percent of the stock of S Corporation, a subsidiary that has an obligation to contribute to a multiemployer plan on behalf of its employees, the controlled group consisting of P and S would be considered an employer with an obligation to contribute to the plan. If P sells all of its interest in S to an unrelated party, the controlled group consisting of P and S would cease to exist. However, if S continues to have an obligation to contribute to the plan, no withdrawal would be considered to have taken place merely because of the change in ownership of S." 126 Cong. Rec. S10,115 (daily ed. July 29, 1980) and

> H.R. Rep. No. 96-869, Part II, 96th Cong., 2nd Sess. 162 (1980), reprinted in [1980] U.S. CODE CONG. & AD. NEWS 3005-6. (emphasis supplied).

This example is an obvious reference to section 4218(1)(A) of ERISA which provides that an employer shall not be considered to have withdrawn from a plan solely because the employer ceases to exist by reason of "a change in corporate structure described in section 4062(d)" as long as no interruption in employer contributions or obligations to contribute under the plan occurs. Thus Congress clearly intended that a sale of stock of a subsidiary corporation is such a change in form of structure and that under section 4218 a withdrawal from a multiemployer plan does not occur when a parent sells the stock of a subsidiary corporation that contributes to a multiemployer plan and such contributions continue after the sale.

If you have any questions or wish to discuss these matters further, please contact * * * of this office at (202) 254-4895.

Sincerely,

HENRY ROSE
General Counsel

82-17

§ 4602(d)
4204
4212(c)

[PBGC Logo]

Pension Benefit Guaranty Corporation
2020 K Street, N.W., Washington, D.C. 20006

[26 May 1982]

Re: Opinion Letter Regarding Provisions of the Multiemployer Pension Plan Amendments Act of 1980

We have received your letter in which you asked the Pension Guaranty Corporation ("PBGC") to give advice on an issue arising under the provisions of the Multiemployer Pension Plan Amendments Act of 1980 (the "Act") as they apply to the transactions described in your letter. (Section references hereinafter are to the Employee Retirement Income Security Act of 1974 ("ERISA"), 29 U.S.C. § 1001 *et seq.*, as amended by the Act).

It is clear under the Act that the initial responsibility for determining whether any particular action constitutes a withdrawal from a multiemployer plan, and the amount of any liability resulting therefrom, lies with the plan sponsor. The Act further provides that any disputes between a plan sponsor and an employer on these issues are to be resolved first through arbitration and then, if necessary, in the courts. Given this scheme for enforcement of the Act, it would be inappropriate for the PBGC to interject itself in such a determination by issuing an opinion on the application of the law to particular transactions. The PBGC, however, will continue in practice of answering general interpretive questions regarding the Act.

The applicability of the sale of assets provisions of the Act to the sale of the stock of a corporation presents such a general interpretative question. Section 4204, the sale of assets provision, applies only when there is a complete or partial withdrawal of an employer. The legislative history to the Act contains the following excerpt which indicates that there is no withdrawal of an employer solely as a result of a sale of stock of a corporation which was obligated to contribute to a multiemployer plan and which continues such contributions after the sale:

> "The bill treats an employer as withdrawing from a multiemployer plan when the employer (1) permanently ceases to have an obligation to contribtue under the plan, or (2) permanently ceases all covered operations under the plan. A withdrawal does not occur however, where an employer ceases to exist merely by reason of a change in form or structure, as long as the employer is replaced by a successor employer and there is no interruption in the successor employer's contributions to the plan or obligation to contribute under the plan". 126 Cong. Rec. S10, 115 (daily ed. July 29, 1980) and H.R. Rep. No. 96-869, Part II, 96th Cong., 2nd Sess. 162 [1980], reprinted in [1980] U.S. CODE CONG. & AD NEWS 3005-6. (emphasis supplied).

This excerpt has reference to Section 4218(1)(A) of ERISA which provides that an employer shall not be considered to have withdrawn from a plan solely because the employer ceases to exist by reason of "a change in corporate structure described in section 4062(d)" as long as no interruption in employer contributions or obligations to contribute under the plan occurs. Thus, Congress indicated that a sale of stock of a corporation is such a change in form or structure and that under Section 4218 a withdrawal from a multiemployer plan does not occur when the stock of a corporation that contributes to a

multiemployer plan is sold and such contributions continue after the sale. Therefore, if Section 4218 applies and an employer is not considered to have withdrawn from a plan because of a change in corporate structure described in Section 4062(d), then Section 4204, the sale of assets provision, does not apply.

Under the facts of the case you describe, the purchase of all the stock of * * * by * * * is a change in corporate structure described in Section 4062(d). Therefore, there is no withdrawal and Section 4204, the sale of assets provisions, does not apply.

Note that under Section 4212(c), if a principal purpose of any transaction is to evade or avoid liability under Part I of Subtitle E of Title IV of ERISA, that part shall be applied (and liability shall be determined and collected) without regard to such transaction.

Please note that we are not expressing an opinion as to the consequences of the subsequent closing of the Quinn terminal by Maislin. The plan sponsor must determine whether this action is a complete or partial withdrawal and if so, the consequences of such a withdrawal.

If you have any questions or wish to discuss the matter further, please contact * * * of this office at (202) 254-3010.

Sincerely,

HENRY ROSE
General Counsel

82-40

§ 4062(d)
§ 4203
§ 4204
§ 4218

[PBGC Logo]

Pension Benefit Guaranty Corporation
2020 K Street, N.W., Washington, D.C. 20006

[Dec. 27, 1982]

This in response to your recent letter to Edwin Jones, regarding section 4218 of the Multiemployer Pension Plan Amendments Act of 1980, which amended the Employee Retirement Income Security Act of 1974. Your letter poses the question whether section 4218 of the Act shields an employer from withdrawal liability in a sale of assets where the seller's name, plant, employees, and inventory are simply taken over and continued by the purchaser. You state that the purchaser has continued to contribute to the multiemployer pension plan on behalf of all of the seller's unit employees except one. The plan has asserted that the seller has "withdrawn" from the plan, and is claiming withdrawal liability in connection with the event. You assert that the purchaser is a "successor" within the meaning of section 4218 of the Act and should be deemed the original employer. In your view, no withdrawal has occurred.

Under section 4203, a withdrawal occurs when an employer permanently ceases to have an obligation to contribute under the plan, or permanently ceases all covered operations under the plan. Under the facts you describe, and assuming that the seller does not continue to contribute to the plan on behalf of employees or operations in which it has an ownership interest of 80% or more, the selling employer has permanently ceased to have an obligation to contribute under the plan. Congress recognized in section 4204 of the Act, however, that where

a purchaser in an arms-length bona fide sale of assets continues to contribute to the plan on behalf of substantially the same contribution base units, and assumes the contribution history (and thereby the liability history) of the seller for the year of the sale and the preceding four years, the plan is not harmed, and therefore no withdrawal should occur. Accordingly, section 4204 provides that where the requisite conditions of that section are met, no withdrawal shall occur.

You rely instead on section 4218. In our view, this reliance is misplaced. Section 4218 provides that a withdrawal shall not occur if an employer ceases to exist by reason of a change in corporate structure described in section 4062(d) or a change to an unincorporated form of business, so long as there is no interpretation of employer contributions or obligations under the plan. The kinds of corporate restructuring referred to in section 4062 (d) are reorganizations which involve "a mere change in identity, form or place of organization, a liquidation into a parent corporation, or a merger, consolidation or division. These types of restructuring are inapposite to the facts of the case you present. In the situations described in section 4218, the entity contributing to the plan after the transaction is considered to be the same as the entity contributing prior to the transaction. Consequently, the entity after the sale is responsible for the allocable unfunded vested benefits for years both before and after the transaction. In your case however, the seller's obligation to the plan would totally cease as of the date of the sale. In this situation, Congress intended the seller to pay his allocated share of the plan's unfunded vested benefits, i.e., that share which was accrued during his participation in the plan. The purchaser has no obligation for this past liability and is treated as a new employer contributing to the plan with respect to the transferred operations. Thus, unless the seller is considered to have withdrawn from the plan, the seller's share of the plan's unfunded vested benefits would fall on the remainder of the con-

tributing employers. This is precisely the result Congress sought to avoid with the passage of the Multiemployer Act.

The PBGC has issued a regulation governing the exemption procedures under section 4204 and a class exemption which may be relevant to your facts. Should the seller and purchaser agree to comply with the terms of section 4204, withdrawal liability on the seller might be avoided. Copies of these documents are enclosed.

I hope this information has been helpful. If I can be of further assistance to you, please do not hesitate to contact me.

Sincerely,

HENRY ROSE
General Counsel

Enclosures

83-11

§ 4062(d)
4203
4205
4218

[PBGC Logo]

Pension Benefit Guaranty Corporation
2020 K Street, N.W., Washington, D.C. 20006

[May 16, 1983]

This responds to your recent letter requesting a ruling regarding withdrawal liability under Sections 4203, 4205 and 4218 of the Employee Retirement Income Security Act of 1974, 29 U.S.C. § 1301 *et seq.* (1976) (amended by Pub. L. No. 96-364 (1980)) ("ERISA"). Specifically you wish to know if an employer ("A") who contributes to a multiemployer plan withdraws from the plan as a consequence of forming a wholly-owned subsidiary ("B") which assumes A's obligations to the plan for the same operations and employees for which A was obligated to contribute.

Under the Act the initial responsibility for determining whether any particular action constitutes a withdrawal from a multi-employer plan, the amount of any liability resulting therefrom, and the identity of the liable employer lies with the plan. The Act further provides that any dispute between a plan and an employer on these issues are to be resolved first through arbitration, subject to review in the courts. Given this scheme for enforcement of the Act, the PBGC prefers not to interject itself in such determinations by issuing an opinion on the application of the law to the particular transactions you describe. The PBGC, however, will continue its practice of answering general interpretive questions regarding the Act.

Section 4218 provides that a withdrawal shall not occur solely because an employer ceases to exist by reason of a

change in corporate structure described in Section 4062 (d) as long as there is no interruption of employer contributions or obligations under the plan. The kinds of corporate restructuring referred to in Section 4062(d) are changes which involve (1) "a mere change in identity, form, or place of organization," (2) "a liquidation into a parent corporation," and (3) a merger, consolidation, or division." In our view the creation of a subsidiary corporation is a transaction described in Section 4062(d).

I hope this response is helpful to you.

Sincerely,

HENRY ROSE
General Counsel

84-7

§ 4001(b)
4203
4212(c)

[PBGC Logo]

Pension Benefit Guaranty Corporation
2020 K Street, N.W., Washington, D.C. 20006

[Dec. 20, 1984]

We have your letter raising several issues arising under the provisions of the Multiemployer Pension Plan Amendments Act of 1980 (the "Act").

Your first question concerns whether a withdrawal from a multiemployer pension plan will occur when corporation X organizes a wholly-owned subsidiary corporation Y and transfers to it all of the assets of one of its divisions. Section 4203 of ERISA provides that a withdrawal from a multiemployer plan has occurred when an *employer* permanently ceases to have an obligation to contribute under the plan, or permanently ceases all covered operations under the plan. (Section references herein are to the Employee Retirement Income Security Act of 1974 ("ERISA"), 29 U.S.C. § 1001 *et seq.*, as amended by the Act). Section 4001(b) defines an "employer" to include all trades or businesses under common control, and the PBGC's regulation on trades or businesses under common control, 29 C.F.R. Part 2612, provides that "trades or businesses which are under common control" has the same meaning as in Section 414(c) of the Internal Revenue Code ("IRC") and the regulations issued thereunder. Accordingly, if certain entities, such as X and Y, are under common control as defined in Section 414(c) of the IRC, they constitute the "employer" for purposes of Section 4203 of ERISA and no withdrawal will have occurred as a result of a transfer of assets from X to Y.

Your second question concerns the sale by X of all of the stock in its subsidiary corporation Y to your client A, an unrelated corporation which continues contributions to the plan on behalf of Y. You advise that neither X nor A has made any other contributions to the plan; nor does either intend to make other contributions to the plan. You ask whether, as a result of the stock sale, X and Y would incur withdrawal liability under ERISA.

It is clear that Congress intended that no withdrawal occur solely because a parent employer sells the stock of a subsidiary, so long as the subsidiary continues to make its contributions to the plan. The legislative history to the Act contains the following analysis:

> A group of trades or businesses under common control is treated as a single employer. For example, if P Corporation owns 100 percent of the stock of S Corporation, a subsidiary that has an obligation to contribute to a multiemployer plan on behalf of its employees, the controlled group consisting of P and S would be considered an employer with an obligation to contribute to the plan. If P sells all of its interest in S to an unrelated party, the controlled group consisting of P and S would cease to exist. However, if S continues to have an obligation to contribute to the plan, no withdrawal would be considered to have taken place merely because of the change in ownership of S. 126 Cong. Rec. S10,115 (daily ed. July 29, 1980) and H.R. Rep. No. 96-869, Part II, 96th Cong., 2nd Sess. 162 (1980), reprinted in [1980] U.S. CODE CONG. & AD NEWS 3005-6.

Therefore, the sale of stock of Y to A does not effect a withdrawal, as long as Y continues to make its contributions to the plan.

Finally, with regard to the transaction you describe, we note that under Section 4212(c), if a principal purpose

of any transaction is to evade or avoid liability under Part 1 of Subtitle E of Title IV of ERISA, that part shall be applied (and liability shall be determined and collected) without regard to such transaction.

Sincerely,

/s/ Henry Rose
HENRY ROSE
General Counsel

[PBGC Logo] 92-1

Pension Benefit Guaranty Corporation
2020 K Street, N.W., Washington, D.C. 20006-1860

[Mar. 30, 1992]

Re:

I write in response to your letter requesting the opinion of the Pension Benefit Guaranty Corporation ("PBGC") in regard to calculating liability for a complete or partial withdrawal under Sections 4203 and 4205 of the Employee Retirement Income Security Act of 1974 ("ERISA"), *as amended*, 29 U.S.C. §§ 1383 and 1385 (1989). Specifically, your question concerns the calculation of withdrawal liability in a situation where several members of a controlled group of corporations have an obligation to contribute to the same multiemployer pension plan and the controlled group members are sold or liquidated in a series of transactions.

As you the aware, Section 4221 of ERISA provides that disputes between a plan sponsor and an employer on issues concerning withdrawal and withdrawal liability are to be resolved first through arbitration, and, if necessary, in the courts. The PBGC does not interject itself into these statutory procedures by issuing opinions on the application of the law to particular transactions. However, the PBGC will continue its practice of answering general questions of interpretation under Title IV of ERISA.

In the hypothetical situation you present in your letter, parent company P has four wholly-owned subsidiaries, A, B, C and D. The four subsidiaries contribute to a multiemployer pension plan (the "plan") in equal periodic amounts under a single collective bargaining agreement.

In a series of transactions, P's controlled group ceases covered operations at each of the subsidiaries. First, P closes subsidiary A and does not continue operations previously performed by A. Second, P sells the assets of subsidiary B to an unrelated purchaser. The purchaser does not assume B's contribution obligation or make contributions to the Plan. Third, P sells the stock of subsidiary C to another unrelated purchaser. C continues in business and makes required contributions to the plan. Finally, P sells the stock of subsidiary D to a third unrelated purchaser. D continues operations and contributes to the plan for several years before going out of business. You request the PBGC's opinion as to the assessment of liability for a complete or partial withdrawal stemming from this series of transactions.

For purposes of determining whether a complete or partial withdrawal has occurred, all trades or businesses under common control are to be treated as a single employer. ERISA § 4001(b)(1), 29 U.S.C. § 1301(b)(1). Under Section 4203(a) of ERISA, 29 U.S.C. § 1383(a), a complete withdrawal generally occurs when an employer permanently ceases to have an obligation to contribute under a plan, or permanently ceases all covered operations under a plan. A partial withdrawal generally occurs when an employer has a 70% contribution decline in each of three consecutive plan years; or, the employer permanently ceases to have an obligation to contribute under one or more but fewer than all collective bargaining agreements, but continues to perform work in the jurisdiction of the collective bargaining agreement of the type for which contributions were previously required, or transfers such work; or, the employer permanently ceases to have an obligation to contribute with respect to work performed at one or more but fewer than all of its facilities, while continuing to perform work at that facility of the type for which the obligation to contribute ceased. ERISA § 4205(a) and (b), 29 U.S.C. § 1385

(a) and (b). The methods for computing the amount of liability for a complete or partial withdrawal are set forth in Sections 4211 and 4206 of ERISA, 29 U.S.C. §§ 1391 and 1386. In order to determine whether a complete or partial withdrawal has occurred and the amount of the resulting liability, contributions of the entire controlled group must be taken into account. 29 U.S.C. §§ 1301(b)(1) and 1391.

As you point out in your letter, when subsidiary A is closed in the first transaction, there is no complete or partial withdrawal by the controlled group. Three members of the controlled group continue to have an obligation to contribute to the plan and continue covered operations. There is no partial withdrawal because, on the facts assumed, there has not been a 70% decline in contributions by the controlled group over a three-year period or a partial cessation of the controlled group's contribution obligation within the meaning of Section 4205(b)(2)(A) of ERISA, 29 U.S.C. § 1385(b)(2)(A). Thus, for purposes of calculating the amount of liability for a subsequent complete or partial withdrawal under Sections 4211 and 4206 of ERISA, 29 U.S.C. §§ 1391 and 1386, A's contribution history remains part of the controlled group's contribution history.

The same holds true on the sale of B's assets to an unrelated purchaser. Even though the asset sale is not structured to meet the requirements of Section 4204 of ERISA, 29 U.S.C. § 1384, there is no complete or partial withdrawal because two other members of the controlled group continue to contribute to the Plan and there has been no 70% decline in contributions over three years or any partial cessation of the controlled group's contribution obligation under 29 U.S.C. § 1385(b)(2)(A). Again, the contribution history of B remains part of the controlled group's contribution history for purposes of calculating amounts of subsequent withdrawal liability.

The sale of the stock of subsidiary C to an unrelated purchaser that continues to make contributions to the plan would ordinarily fall within the ambit of Section 4218 of ERISA, which provides in relevant part:

> Notwithstanding any other provisions of this part, an employer shall not be considered to have withdrawn from a plan solely because—
>
> (1) an employer ceases to exist by reason of—
>
> (a) a change in corporate structure described in Section 4069(b) . . .
>
> if the change causes no interruption in employer contributions or obligations to contribute under the plan . . .
>
> * * * *
>
> [A] successor or parent corporation or other entity resulting from any such change shall be considered the original employer.

29 U.S.C. § 1398.

Among the changes described in Section 4069(b) of ERISA, 29 U.S.C. §1369(b), are "a mere change in identity, form, or place of organization" and "a merger, consolidation or division." In Opinion Letters 82-4 (February 10, 1982), 83-11 (May 16, 1983), and 84-7 (December 20, 1984), the PBGC expressed its opinion that the sale of a subsidiary's stock does not bring about the withdrawal of the parent corporation, if the change causes no interruption in employer contributions or obligations to contribute under the plan.

Under the last sentence of Section 4218 of ERISA, a successor employer resulting from a restructuring described in that Section is considered the "original employer." This provision attributes the contribution history of the original employer to the successor employer resulting from the restructuring. In the typical case, the contribution history used to determine the withdrawal liability

of the successor will be the contribution history that would have formed the basis for withdrawal liability if the restructuring had not occurred.

In your hypothetical, the sale of C's stock causes no interruption in contributions or obligations to the plan. C and its new controlled group, if any, and the P controlled group, continue to contribute to the Plan. Consequently, there is no complete withdrawal by the P controlled group, or by C and its new controlled group, if any. Pursuant to the last sentence of Section 4218, both the P controlled group and C and its new controlled group, if any, are "successor" employers. However, in a situation such as this where multiple entities in the same controlled group contribute to the same plan, and some, but not all, of the controlled group members who contribute to the plan are the subject of a change described by Section 4218 of ERISA, neither of the successors clearly should inherit the entire contribution history of the original employer. In such a case, it is the PBGC's opinion that the contribution history of the original employer must be fully apportioned among the successor employers. The plan should make the allocation in a reasonable manner. For example, in the absence of a history of large transfers of operations or covered employees between members of the controlled group, or other unusual factors, the plan may allocate that contribution history in proportion to the contribution histories of the controlled group members that have an obligation to contribute and covered operations immediately before the Section 4218 transaction, or in your hypothetical 50% to C and 50% to the P controlled group.

Consequently, in the event of a subsequent complete withdrawal by the P controlled group, the amount of liability under Section 4211 of ERISA, § 1391, is determined without reference to the contribution history allocable to C and its new controlled group, if any. Likewise, in the event of a subsequent complete withdrawal by C and its

new controlled group, if any, the amount of liability under Section 4211 of ERISA, 29 U.C.C. § 1391, is determined without reference to the contribution history allocable to the P controlled group.

You also inquired as to the effect of the sale of C's stock on determining whether a partial withdrawal occurs under Section 4205(a)(1) of ERISA, 29 U.S.C. § 1385(a)(1). Under your hypothetical, once C is sold, the contributions of the P controlled group decline by 75%. Generally, a partial withdrawal occurs whenever there is a 70% contribution decline in each of three consecutive plan years measured against a base year. *See* 29 U.S.C. 1385(b)(1). Under Section 4218 of ERISA, P's controlled group would not ordinarily incur a partial withdrawal in the third plan year following the sale of C's stock. However, in order to avoid partial withdrawal liability, the decline in contributions must be "solely" because of a covered change in corporate structure. 29 U.S.C. § 1398.

In your hypothetical, it is not clear whether the decline in contributions is solely because of the sale of C's stock. The decline could be due, at least in part, to closing A and selling the assets of B to a purchaser who did not continue making contributions to the Plan. Whether a decline in contributions is solely because of a covered restructuring must be determined on the facts and circumstances of each case and should be addressed by arbitration subject to review by the courts. Relevant considerations might include the length of time between transactions, whether the transactions were related, and whether each transaction would have been subject to Section 4218 if viewed individually.

If the decline in contributions is determined to be solely because of the sale of C's stock, the contribution history transferred in the Section 4218 transaction is excluded from the base year calculations used to determine whether a 70% decline has occurred under Section 4205(b)(1)(B)(ii) of ERISA. If the decline in contributions is

determined not to be solely because of the sale of C's stock, C's contribution history is included in the base year calculations.

In the final transaction, D's stock is sold to a third unrelated purchaser who continues making contributions to the Plan on behalf of D's employees. After the stock sales, the P controlled group ceased covered operations and no longer has an obligation to contribute to the Plan. Under Section 4218 of ERISA, the P controlled group would not ordinarily be subject to withdrawal liability on the sale of D's stock. As stated above, however, in order to avoid withdrawal liability, the controlled group must cease to have such operations or such obligations "solely" because of a covered change in corporate structure. 29 U.S.C. § 1398. As discussed above, whether an employer's cessation is solely the result of a covered restructuring must be determined on the facts and circumstances of each case and should be addressed by arbitration subject to review by the courts.

Assuming that the controlled group's cessation is not solely because of a covered restructuring, it incurs a complete withdrawal. However, D and its new controlled group, if any, should be a "successor" within the meaning of the last sentence of Section 4218. Consequently, a portion of the P controlled group's remaining contribution history must be allocated to D and its new controlled group, if any, under the principles discussed above. The P controlled group's liability is then determined pursuant to Section 4211 of ERISA, 29 U.S.C. § 1391, based on the contribution history of the original employer that was not transferred to C or D and its new controlled group, if any, remains responsible for the contribution history previously allocated to C.

Alternatively if the controlled group's cessation is determined to be solely because of a covered restructuring, the controlled group is not subject to withdrawal liability

even though it no longer has an obligation to contribute to the Plan or has covered operations under the Plan. In that event, D and its new controlled group, if any, inherits the contribution history of the P controlled group that was not allocated to C.

You also ask if the result would be different if the assets of D are sold in a transaction that meets the re-requirements of Section 4204 of ERISA, 29 U.S.C. § 1304. Under Section 4204(a)(1) of ERISA, an employer will not incur liability for a complete or partial withdrawal "solely" because of the sale of all or a portion of its assets to an unrelated purchaser if the following conditions are met. First, the purchaser must have an obligation to contribute to the pension plan for substantially the same number of contribution base units as the seller. Second, the purchasers must provide a cash or surety bond payable to the pension plan in the five years after the sale if the purchaser withdraws or fails to make required contributions. Third, the contract for sale must provide that if the purchaser withdraws in the five years after the sale and fails to pay its withdrawal liability, the seller is secondarily liable. 29 U.S.C. § 1384(a)(1).

Under Section 4204(b)(1) of ERISA, 29 U.S.C. § 1384(b)(1), the liability of the purchaser for a subsequent complete or partial withdrawal is determined as if the purchaser was required to contribute to the plan the amount the seller was required to contribute for the operations transferred for the year of the sale and the four previous years. Thus, the purchaser assumes the contribution history of the seller for the year of the sale and the four plan years preceding the sale, but only for the contribution history relating to the assets transferred in the sale.

In your hypothetical, if the assets of D are sold in a sale that meets the requirements of Section 4204 of ERISA, the P controlled group has ceased covered operations and

no longer has an obligation to contribute to the Plan. Like the sale of stock situation discussed above, the P controlled group would not ordinarily be subject to withdrawal liability on the sale of D's assets. However, under Section 4204(a)(1), as under Section 4218, in order to avoid withdrawal liability, the controlled group's cessation must occur "solely" because of a sale of assets. Again, the question of whether an employer's cessation is solely because of a particular transaction must be determined on the facts and circumstances of each case and should be addressed by arbitration subject to review by the courts.

Assuming that the controlled group's cessation is solely because of the asset sale, the controlled group does not incur withdrawal liability even though it no longer has an obligation to contribute to the Plan or has covered operations under the Plan. However, the controlled group is secondarily liable if D and its new controlled group, if any, withdraw from the Plan within 5 years of the asset sale and fail to make withdrawal liability payments. D and its new controlled group, if any, assume the contribution history relating to D's operations for the year of the sale and the previous four years.

If the controlled group's cessation is determined not to be solely because of the sale of D's assets, it incurs a complete withdrawal and its liability is determined pursuant to Section 4211 of ERISA, 29 U.S.C. § 1391, based on the contribution history of the original employer that was not transferred to C.

As a final matter, the opinions in this letter are subject to the special rule in Section 4212(c) of ERISA, which states:

> If a principal purpose of any transaction is to evade or avoid liability under this part, this part shall be applied (and liability determined and collected) without regard to such transaction.

29 U.S.C. § 1392(c). Depending on the facts, some of the same considerations as are relevant in determining whether a cessation is due "solely" to a restructuring or sale of assets may be relevant under Section 4212(c).

I hope this has been of assistance to you. If you have any further questions, please * * * * of my staff at * * *.

Very truly yours,

/s/ Carol Connor Flowe
CAROL CONNOR FLOWE
General Counsel

(2)

Supreme Court, U.S.
FILED
APR 12 1996
CLERK

No. 95-1470

In the Supreme Court of the United States
October Term, 1995

Central States, Southeast and
Southwest Areas Pension Fund,
Petitioner,

v.

The Sherwin-Williams Company,
Respondent.

BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT

RONALD LEO KAHN *Counsel of Record*
HAROLD H. READER III
PATRICIA A. SHLONSKY
GREGORY A. GORDILLO
Ulmer & Berne P.L.L.
1300 E. 9th St., #900
Cleveland, Ohio 44114
Telephone 216-621-8400

RON M. TAMBURRINO
The Sherwin-Williams
Company
101 Prospect Avenue
Cleveland, Ohio 4415

MITCHELL A. ORPETT
of Counsel
Tribler & Orpett, P.C.
30 North LaSalle St. #2200
Chicago, Illinois 60602

Attorneys for Respondent

THE GATES LEGAL PUBLISHING CO. CLEVELAND, OHIO 216-621-5647

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QUESTION PRESENTED

Sherwin-Williams and its subsidiaries, including Lyons, Dupli-Color and Terminal Garage, were a group of trades or businesses under common control and thus deemed a single employer under ERISA § 4001(b)(1), 29 U.S.C. § 1301(b)(1). Each of Lyons, Dupli-Color and Terminal Garage was making contributions to the Central States Pension Fund. Sherwin-Williams sold the stock of Lyons to J.R.C., an unrelated corporation, which group thereafter incurred financial problems and went bankrupt, ceasing contributions to the Central States Pension Fund. Dupli-Color continues to contribute to the Central States Pension Fund.

The question presented is —

Assuming, *arguendo,* that the exception to withdrawal liability provided by 29 U.S.C. § 1398 does *not* apply, is it possible for Sherwin-Williams to have incurred a *complete* withdrawal under 29 U.S.C. § 1383 from the Central States Pension Fund as a result of its sale of Lyons when there are ongoing contributions to the Central States Pension Fund by at least one other of its subsidiaries, Dupli-Color?

RULE 29.6 STATEMENT

Pursuant to Rule 29.6 of the Rules of this Court, respondent, The Sherwin-Williams Company, states that it has no parent company and its subsidiaries (other than wholly-owned subsidiaries) are:

John's Color Wheel, Inc. (60% subsidiary)
Kaney Paints, Inc. (60% subsidiary)
Heritage Paint and Decorating, Inc. (60% subsidiary)
American Standox, Inc. (50% ownership)

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RESPONDENT'S BRIEF IN OPPOSITION

The respondent, The Sherwin-Williams Company, respectfully requests that this Court deny the petition for writ of certiorari, seeking review of the Seventh Circuit's opinion in this case. That opinion is reported at 71 F.3d 1338 (7th Cir. 1995).

JURISDICTION

Central States has invoked the jurisdiction of this Court "under 28 U.S.C. § 1251(1)." However, 28 U.S.C. § 1251 deals with "original jurisdiction" and any reliance thereon by Central States is misplaced. However, based upon the nature of its petition, it, more appropriately, appears that Central States intended to invoke the jurisdiction of this Court under 28 U.S.C. § 1254(1) by writ of certiorari.

STATUTES AND REGULATIONS

In addition to 29 U.S.C. § 1301 and 29 U.S.C. § 1398(1) set forth in the Petition, respondent sets out the following relevant statutes and regulations in the Appendix:

28 U.S.C. § 1254(1)
29 U.S.C. § 1383(a)
29 U.S.C. § 1384(a)
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29 U.S.C. § 1391(a), (b), (c) & (d)
29 U.S.C. § 1392(c)

STATEMENT OF THE CASE

[The Statement of the Case in Central States' Petition is not complete and in certain respects is not accurate. Accordingly, Sherwin-Williams sets forth this statement of the case.]

The Sherwin-Williams Company ("Sherwin-Williams") is an Ohio corporation with its principal place of business located in Cleveland, Ohio. Central States, Southeast and Southwest Areas Pension Fund ("Central States") is a multiemployer plan as defined in 29 U.S.C. § 1002(37), with its principal offices located in Illinois.

This case arises under the withdrawal liability provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"), as amended by the Multiemployer Pension Plan Amendments Act of 1980 ("MPPAA"), 29 U.S.C. §§1381-1405.

From 1987 until 1990, Sherwin-Williams owned *three* companies (Lyons Transportation Lines, Inc., Terminal Garage and Dupli-Color Products Co.) that contributed to Central States. On or about June 1, 1990, Sherwin-Williams sold the stock of Lyons Transportation Lines, Inc. ("Lyons") to JRC Acquisition Corp. ("JRC") for bona fide business reasons. After the sale, Lyons began to encounter numerous problems, which ultimately resulted in its demise. On October 12, 1990, Lyons ceased making contributions to Central States; and on October 19, 1990, Lyons and JRC filed Chapter 11 bankruptcy proceedings.

Pension contributions for the two covered employees at the Terminal Garage were made for most of 1990. However, by correspondence dated November 27, 1990, almost six months after Sherwin-Williams' sale of Lyons, subsequent to Lyons' Chapter 11 filing and cessation of contributions, counsel for the local union representing employees of Terminal Garage notified the National Labor Relations Board that it was disclaiming interest in serving as the collective-bargaining representative of the two union drivers employed by Terminal Garage. There-

after, Terminal Garage ceased making contributions to Central States. The other company, Dupli-Color, is still owned by Sherwin-Williams and still contributes to Central States.

By correspondence dated January 16, 1991, Central States assessed Sherwin-Williams for a complete withdrawal of Lyons under 29 U.S.C. § 1383. Central States also informed Sherwin-Williams that the demand applied to all members of any commonly controlled group of trades or businesses which included Lyons. Thus, despite the fact that Dupli-Color continued to contribute to Central States, Sherwin-Williams paid a total of $1,988,989.62 to Central States pursuant to its assessment.

By letter dated March 1, 1991, and pursuant to 29 U.S.C. §1399(b)(2), Sherwin-Williams requested Central States to review the assessment, in part because a complete withdrawal could not have occurred while other members of the Sherwin-Williams controlled group continued to contribute to Central States. Central States did not timely respond to Sherwin-Williams, and on August 27, 1991, Sherwin-Williams exercised its option under 29 U.S.C. §1401(a) to request arbitration of the assessment. Five months later, Central States informed Sherwin-Williams that the request for review was denied. By letter dated April 21, 1993 to Sherwin-Williams, Central States assessed Sherwin-Williams additional withdrawal liability in the amount of $1,327,077.44 attributable to a 1990 partial withdrawal due to cessation of Terminal Garage's contributions, which computation included the contribution history of Lyons and in this regard was duplicative of the first assessment.

By letter dated April 20, 1995, Central States assessed Sherwin-Williams additional withdrawal liability in the amount of $336,374.61 due to a 70% contribution decline pursuant to 29 U.S.C. §1385(a)(1). This assessment again took into consideration the contribution history of Lyons and provided a partial credit relating to Central State's second assessment.

On September 12, 1994, the arbitrator held that under no circumstances could Sherwin-Williams be liable for a complete withdrawal of Lyons since other members of the Sherwin-Williams' controlled group continued to contribute to Central States.

Central States, however, did not accept the arbitrator's decision which required Central States to return to Sherwin-Williams the nearly $2 million assessment which it had collected. On October 7, 1994, Central States filed a complaint to modify or vacate the arbitrator's award. On the same date, Sherwin-Williams filed a complaint to enforce the arbitrator's decision to return the assessment monies to Sherwin-Williams.

On March 15, 1995, the United States District Court for the Northern District of Illinois held that Sherwin-Williams was not liable for a complete withdrawal of Lyons, stating as follows:

> What controls here, however, is that in terms of the controlling statutory provisions it is [Central States] that is wrong. There is no complete withdrawal under Section 1383(a) unless the statutory 'employer' permanently ceases to have any contribution obligation . . . And because that did not occur as to the entire Sherwin-Williams conglomeration that constituted the statutory 'employer'

> under Section 1301(b)(1), and because Dupli-Color has always been part of that conglomeration and contributes to [Central States], no statutory 'complete withdrawal' can be found here.

[Petitioner's Appendix B, pp. 25a-26a.]

Once again, Central States refused to accept a decision which required it to return the assessment monies, and it appealed the district court's decision to the Seventh Circuit. The Seventh Circuit affirmed the decision of the district court as to the merits, stating as follows:

> There was, and is, only one 'group': the Sherwin-Williams group. No 'old Sherwin-Williams group.' Just one group comprising changing assortments and operations. That group has not completely withdrawn from [Central States].

[Petitioner's Appendix A, p. 10a.]

REASONS FOR DENYING THE WRIT

I. PETITIONER HAS MISSTATED AND EXAGGERATED THE ISSUE IN THIS CASE.

When put in the proper focus, the question presented in this case is neither so expansive nor so dramatic as Central States suggests. Central States is arguing that this case — three times decided in Sherwin-Williams' favor — merits review by this Court on the basis of dicta in the Seventh Circuit's opinion. That dicta relates to the application of 29 U.S.C. § 1398(1), which provides an exemption to potential withdrawal liability under MPPAA. However, the arbitrator, both courts below and both parties have acknowledged, for purposes of what is the

single issue of this case, that the exemption of § 1398(1) is assumed to be inapplicable.

Central States is attempting to bootstrap what is a non-issue in this case — namely, whether 29 U.S.C. § 1398(1) applies to exempt from withdrawal liability the sale of a subsidiary where the requirements of § 1398(1) *are* satisfied — to suggest that the decision below is in conflict with both Pension Benefit Guaranty Corporation (PBGC) interpretations and decisions in other circuits. In fact, Sherwin-Williams has not only acknowledged the application of § 1398(l) to such sale of a subsidiary, but has and does take the position, albeit not otherwise relevant to these proceedings, that it is indeed entitled to the protection of that very exemption to prevent the imposition of even a partial withdrawal upon it in connection with its sale of stock in Lyons. This is clearly reflected in the arbitrator's decision. *See* Petitioner's Appendix C, at p. 36a.

A. 29 U.S.C. § 1398(1) Is Not Applicable.

During the arbitration proceedings, and at each subsequent level of review through which this case has progressed, it was clear that for purposes of deciding if indeed Sherwin-Williams could have incurred a *complete* withdrawal in light of ongoing contributions to Central States by Dupli-Color, it would be assumed, *arguendo,* that the exemption afforded by 29 U.S.C. § 1398(1) was *not* available. In other words, since it was suggested that whether or not Sherwin-Williams' sale of Lyons caused an interruption in employer contributions was dependent upon disputed facts and inferences to be reasonably drawn therefrom, it could not be determined without an evidentiary hearing whether Sherwin-Williams could rely on the

exemption afforded by § 1398(1). Thus, for purposes of merely focusing on the validity of the nature of Central States' assessment against Sherwin-Williams as a "complete" withdrawal, it was assumed that § 1398(1) was not available to Sherwin-Williams.[1]

That § 1398(1) was assumed to be inapplicable by the arbitrator is clearly set forth in his decision:

> Thus, the only question which remains for purposes of the instant 'Motion to Dismiss or, in the Alternative, Motion for Summary Judgment' is whether the facts, construed most favorably to [Central States] could be viewed as giving rise to a complete withdrawal, rather than a partial withdrawal. . . . for purposes of that Motion, we must assume *arguendo* that [Sherwin-Williams] remained responsible for Lyons, notwithstanding the sale of stock, either because the sale of stock caused the subsequent interruption in employer contributions to [Central States], so that it would be non-qualifying under 29

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[1] In its 1991 Request for Review by which Sherwin-William.. first raised with Central States the issue as to the propriety of the complete withdrawal liability assessment against it, Sherwin-Williams pointed out to Central States that, in light of the ongoing contributions by Dupli-Color, even if 29 U.S.C. § 1398(1) were not available to protect Sherwin-Williams, at best Sherwin-Williams would have incurred a partial withdrawal. Further, since neither of the immediate types of partial withdrawal set forth in 29 U.S.C. § 1385(b)(2)(A)(i) & (ii) (so-called "bargaining agreement cessation" and "facility cessation," respectively) applied with respect to Lyons, Sherwin-Williams advised Central States that, again at best, the withdrawal might be a "70 percent contribution decline" partial withdrawal under 29 U.S.C. § 1385(a)(1) & (b)(1) which could not be calculated until after December 31, 1993.

> U.S.C. § 1398(1); or because it was intended to 'evade or avoid' withdrawal liability under 29 U.S.C. § 1392(c).
>
> * * * * *
>
> . . . We must assume for purposes of the instant Motion . . . that [Sherwin-Williams] would remain responsible for Lyons' cessation of operations and/or contributions, notwithstanding the sale of stock.
>
> Thus, the one issue which remains for purposes of this Motion is whether, under any state or assumed facts, the May 31, 1990 sale of stock and/or Lyons' subsequent cessation of operations and/or contributions could have given rise to a complete withdrawal (as [Central States] argues); or whether it could only have given rise to a partial withdrawal (as [Sherwin-Williams] argues).

[Petitioner's Appendix C, pp. 35a-37a]

Likewise, the district court did not apply § 1398(1) in reaching its determination:

> Given the limited scope of the current issues, however, this opinion will join the arbitrator in his view that neither [Section 1398 nor Section 1392(c)] is directly applicable to the transactions at issue . . .
>
> * * * * *
>
> . . . Section 1398 just does not describe the transactions that have given rise to this litigation.

[Petitioner's Appendix B, pp. 21a-22a & 25a]

Similarly, as conceded by Central States in its Petition at footnote 1, the Seventh Circuit assumed that the sale of Lyons caused an interruption in contributions to Central States thereby rendering § 1398(1) inapplicable. However, in addition to the assumed reason for finding § 1398(1) to be inapplicable to the instant case, the Seventh Circuit went on to question the circumstances under which § 1398(1) was intended to have application, bolstering its interpretation that an employer does not disappear merely by reason of the sale of a subsidiary where it continues making contributions to the pension fund directly or through yet another of its subsidiaries.

> We must assume that the sale of stock caused the collapse. The question remains whether the sale of a subsidiary terminates the existing corporate group and causes a new, shrunken group to spring into existence.

[Petitioner's Appendix A, p. 6a]

> What then is one to make of § 1398? As we read it, § 1398 is a savings clause, a proviso that comes into play only if some other step causes the participant to vanish. . . . Without some rule allowing the substitution of its successor, a transaction that has no economic effect on the pension fund would generate a windfall of withdrawal liability; . . .

[Petitioner's Appendix A, p. 9a]

As demonstrated by the foregoing discussion, Central States is clearly wrong in arguing that the decision below hinges on the question of whether 29 U.S.C. § 1398(1) applies to the sale of a subsidiary where there is no interruption in contributions, since all three decisions

below assumed that the sale of Lyons did cause an interruption in contributions such that the § 1398(1) exemption was *not* available to Sherwin-Williams.

B. The Decision Below Neither Does Harm To Congressional Intent Nor Disrupts MPPAA's Statutory Scheme.

Central States is attempting to argue that without qualifying for the protection of 29 U.S.C. § 1398(1), an employer selling the stock of even a single, small contributing subsidiary (even one small subsidiary out of 100, as dramatically pointed out by the Seventh Circuit) must experience a *complete* withdrawal on its theory that such employer ceases to exist. Further, suggests Central States, to find otherwise where the sold subsidiary subsequently goes bankrupt means that pension funds like Central States will bear the loss. This is precisely what Central States says in its Petition, at p. 9, in critiquing the decision below:

> . . . In the Seventh Circuit's view, however, the Sherwin-Williams control group is still the Sherwin-Williams control group even after the sale of Lyons. . . . Since contributions continue from another control group member (Dupli-Color), the Sherwin-Williams "employer" has not completely withdrawn and Sherwin-Williams is not liable . . . . Although Lyons ceased contributing (and withdrew), it cannot pay its withdrawal liability because it is bankrupt. According to the Seventh Circuit the pension plan (Central States) must bear the loss.

But in its attempt to garner sympathy to its cause, Central States conveniently neglects to mention the very real possibility that the surviving employer (*e.g.*, Sherwin-

Williams) could experience a partial withdrawal under 29 U.S.C. § 1385. As a matter of fact, so conspicuous by its absence is any meaningful discussion of the possibility of a partial withdrawal[2] when discussing the consequences of the decisions below, that whether intentionally or otherwise, Central States' Statement of the Case and depiction of the decisions below represent a troublesome distortion of the true state of affairs.

Specifically, in its Statement of the Case and Reasons for Granting the Writ, Central States misstated the rulings of the arbitrator and the Seventh Circuit. In its Petition at p. 4, Central States states that:

> The arbitrator ruled that if the sale of Lyons caused the interruption of contributions to Central States, then under § 1398 the Sherwin-Williams group should be deemed intact (as if Lyons had not been sold). But since Dupli-Color still contributed, a withdrawal could not have occurred and the Central States' assessment was erroneous.

This synopsis is inaccurate and misleading in several respects. First, the arbitrator did not rule "under § 1398." As discussed above, based upon the assumption that "[Sherwin-Williams] remained responsible for Lyons, notwithstanding the stock sale" the arbitrator expressly said that he regarded the transaction as "non-qualifying under 29 U.S.C. § 1398(1)." *See* Petitioner's Appendix C, p. 35a. Non-qualifying under § 1398 means that the conditions to come within the exemption of § 1398 were

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[2] A passing reference to the 70 percent contribution decline partial withdrawal is mentioned in footnote 4 of the Petition as part of a generic discussion of the term "control group."

not satisfied. Thus, rather than applying § 1398 as Central States' summary would suggest, the arbitrator did not apply § 1398. Secondly, the arbitrator did not find that "a withdrawal could not have occurred" based upon Dupli-Color's ongoing contributions, but only that no "complete" withdrawal could have occurred, which was the single question in issue. The arbitrator specifically recognized the possibility that the cessation of Lyons' operations/contributions could give rise to a partial withdrawal (*see* Petitioner's Appendix C, p. 42a). Again, as reflected in footnote 1 to the arbitrator's decision, not only was a 70 percent contribution decline partial withdrawal possible, but Central States has in fact made an additional assessment against Sherwin-Williams on this basis.

Further, contrary to Central States' hysterical protestations that the court below "has attacked ERISA at its foundation" (Petition, p. 6) and "imperiled the concept of continuing responsibility for pension contribution history" (Petition, p. 10) and that its opinion "completely ignores [the] 'successorship' provision of § 1398" (Petition, p. 9) and "disregards [the] statutory mechanism for ensuring the continued responsibility for pension contribution history" (Petition, p. 10), none of these charges has validity. For some inexplicable reason, Central States has been clinging desperately, and unsuccessfully, to the notion that in connection with the type of transaction presented by the facts in the instant case, it must be an all or nothing proposition. Central States says that anything short of an immediate and complete withdrawal does damage to MPPAA and sticks pension funds with the burden. But by so doing, Central States is weighing a complete withdrawal against no withdrawal when in fact a partial

withdrawal is also possible and specifically recognized by MPPAA. *See* 29 U.S.C. § 1385.

Contrary to Central States' depictions, the Seventh Circuit did not say that Sherwin-Williams did not withdraw or that Sherwin-Williams could not be liable. Rather, it and the other decisions below say that one must look to the original employer to ascertain the nature of the possible withdrawal and, if the employer is still contributing, it cannot be a complete withdrawal. Even if the requirements for an immediate partial withdrawal are not satisfied, there is still the possibility of a 70% decline partial withdrawal. Of course, this would impact the timing and manner of calculation of the assessment. However, not only is this specifically contemplated and articulated by MPPAA, but Central States has conceded that it has taken this very same position in *Santa Fe Pacific Corp. v. Central States Pension Fund,* 1992 U.S. Dist. LEXIS 15159 (N.D. Ill. 1992), *rev'd* 22 F.3d 725 (7th Cir.), *and cert. denied,* 130 L. Ed. 2d 396 (1994) (*see* District Court's decision, Petitioner's Appendix B, p. 27a).

The result reached by the Seventh Circuit is entirely consistent with MPPAA's statutory scheme. Since it assumed that 29 U.S.C.§ 1398(1) did not apply, the withdrawal event occurred, as Central States has insisted, at the time of Sherwin-Williams' sale of Lyons. However, at that moment the Sherwin-Williams' control group (which included Dupli-Color and Terminal Garage) continued contributing to Central States. Thus, at that moment, the Sherwin-Williams control group neither ceased to have an obligation to contribute to Central States nor ceased all covered operations, which are the measures for determining a complete withdrawal under 29

U.S.C. § 1383. Hence, as of that moment, the requirements for a complete withdrawal were not met.

What Central States overlooks is that the successorship provision of § 1398 only sets out a blueprint to tracking post-transaction entities that will bear responsibility for pre-transaction contribution history when the exemption it provides is applicable. But here § 1398 was assumed to be inapplicable.

As this Court has observed in *Connolly v. Pension Benefit Guaranty Corp.*, 475 U.S. 211, 225-226 (1986):

> The assessment of withdrawal liability is not made in a vacuum, however, but directly depends on the relationship between the employer and the plan to which it had made contributions. Moreover, there are a significant number of provisions in the Act that moderate and mitigate the economic impact of an individual employer's liability.

Contrary to Central States' assertions, it is not the decision of the court below but the position of Central States that does harm to the Congressional intent underlying MPPAA. This is dramatically demonstrated by a brief review of how that Congressional intent is reflected in certain of MPPAA's provisions.

The Fourth Circuit observed in *Borden v. Bakery & Confectionery Union & Industry Int'l. Pension*, 974 F.2d 528, 533-534 (4th Cir. 1992), when discussing the sale of assets exemption, provided by 29 U.S.C. § 1384, as but one of a number of provisions in MPPAA designed to limit the impact and application of withdrawal liability, that such exemption furthers "the purpose of the MPPAA to promote plan continuation and growth by encouraging

an employer to sell its operations to another employer that will continue to fund the plan, rather than to withdraw." To like effect, *see Textile Workers Pension v. Standard Dye & Finishing*, 725 F.2d 843, 853 (2d Cir.), *cert. denied*, 467 U.S. 1259 (1984) and *Central States, Southeast and Southwest Areas Health and Welfare Fund v. Cullum Companies, Inc.*, 973 F.2d 1333, 1339 (7th Cir. 1992). § 1398 is another exception which encourages an employer to sell a subsidiary operation as an ongoing business rather than shut it down and trigger a withdrawal. *See Teamsters Pension Trust Fund of Philadelphia and Vicinity v. Central Michigan Trucking, Inc.*, 698 F. Supp. 698, 703 (W.D. Mich. 1987), *aff'd*, 857 F.2d 1107 (6th Cir. 1988).

Likewise, the PBGC, in PBGC Opinion Letter No. 93-3 (October 14, 1993) [Respondent's Appendix p. A28, A30] has indicated that MPPAA was not intended to maximize the withdrawal liability of an employer:

> . . . Section 4225 is but one of several ERISA provisions that limit the amount of withdrawal liability imposed upon withdrawing employers [citing also ERISA §§ 4203(b), (c), (d), and (f), 4204, 4207, 4208, 4209, 4210, 4217, 4218, 4219(c)(1)(B), 4224 and 4225]. Nothing in the Congressional findings and policy declarations that preface MPPAA indicate that the withdrawal liability limitation provisions should be construed to maximize the liability of an employer.. . . The same is true of the legislative history.

Yet by Central States' interpretation of MPPAA, it would impose the more drastic consequence of a complete withdrawal upon Sherwin-Williams for selling the stock of

Lyons than if Sherwin-Williams had shut Lyons down and been potentially subject to a partial withdrawal. Possibly even more incredible under Central States' interpretation is the result that Sherwin-Williams would be more severely impacted, through the imposition of complete withdrawal liability, for selling the stock of Lyons for the good motives articulated above of promoting ongoing business that will perpetuate contributions to multiemployer plans and promote their financial integrity, than if Sherwin-Williams had as a principal purpose for such transaction the evasion or avoidance of MPPAA withdrawal liability. If Sherwin-Williams had this latter "evil" intent, then 29 U.S.C. § 1392(c) would operate to disregard the transaction, thereby again subjecting Sherwin-Williams to a potential partial withdrawal. In other words, if Central States is to be believed, then Congress intended to impose upon an employer, whose motive for engaging in a transaction was to intentionally evade withdrawal liability, a less severe financial consequence than an employer who merely sells an entity in a transaction which is not exempt under § 1398 with no such motive. But clearly, such was not the intent of Congress in enacting MPPAA.[3]

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[3] The decision below finds further support in 29 U.S.C. § 1384, which provides another exemption from withdrawal liability in the context of an employer's sale of assets. If this sale of assets exemption does not apply, the *seller* in such transaction has exposure for either a complete or partial withdrawal. If an employer's sale of stock of a subsidiary does not satisfy the exemption of § 1398(1), why would the seller in such transaction not have the same exposure for either a complete or partial withdrawal?

C. The Decision Below Does Not Conflict With PBGC Opinions.

The answer given by the Seventh Circuit to the question presented in the instant case was not inconsistent with any pronouncements issued by the PBGC. None of the PBGC opinion letters contained in Petitioner's Appendix D concern the specific question here at issue. Although PBGC Opinion Letter No. 92-1 (March 30, 1992) [Petitioner's Appendix D, p.59a] concerns the application of § 1398(1) in connection with the sale of a subsidiary, the hypothetical facts upon which it focuses stop short of the situation present in the instant case. Thus, the PBGC has never indicated whether an employer that sells the stock of a subsidiary in a non-qualifying transaction experiences a complete withdrawal even if another subsidiary of the employer continues to contribute to the pension fund.

If anything, it would appear that PBGC Opinion Letter No. 92-1 supports the conclusions (but, concededly, not the analysis[4]) of the Seventh Circuit. The discussion contained in PBGC Opinion Letter No. 92-1 which relates to the sale of the stock of subsidiary C to an unrelated purchaser that continues to make contributions to the plan is most relevant in this regard:

> In your hypothetical, the sale of C's stock causes no interruption in contributions or obligations to the

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[4] Although the Seventh Circuit seemed to question certain of the PBGC's analysis of § 1398, the district court, in reaching the same conclusion as the Seventh Circuit, expressly referenced PBGC Opinion Letter No. 92-1 and acknowledged that the PBGC opinions are entitled to deference. *See* Petitioner's Appendix B, p. 23a, footnote 14.

> plan. C and its new controlled group, if any, and the P controlled group, continue to contribute to the Plan. Consequently, there is no complete withdrawal by the P controlled group, or by C and its new controlled group, if any.

[Petitioner's Appendix D, p. 63a]

Here, the PBGC found that no complete withdrawal had been experienced by the original employer, the P controlled group. Whether the PBGC's conclusion hinges on the application of § 1398 or because the P controlled group continues to contribute to the plan through subsidiary D is not articulated.

Perhaps more instructive is the PBGC's discussion that follows concerning the effect of the sale of C's stock on determining whether a partial withdrawal occurs under § 1385(a)(1).

> . . . Under [§ 1398], P's controlled group would not ordinarily incur a partial withdrawal in the third plan year following the sale of C's stock. However, in order to avoid partial withdrawal liability, the decline in contributions must be 'solely' because of a covered change in corporate structure. 29 U.S.C. § 1398.
>
> * * * * *
>
> If the decline in contributions is determined to be solely because of the sale of C's stock, the contribution history transferred in the [§ 1398] transaction is excluded from the base year calculations used to determine whether a 70% decline has occurred under [§ 1385(b)(1)(B)(ii)]. If the decline in contributions is determined not to be solely because of

> the sale of C's stock, C's contribution history is included in the base year calculation.

[Petitioner's Appendix D, pp. 64a-65a]

It is the last sentence above quoted from the PBGC discussion which supports the decisions of the Seventh Circuit, the district court and the arbitrator and which contradicts the position of Central States. This sentence indicates that in the case of a nonqualifying transaction, C's contribution history is included in the base year calculations for determining a partial withdrawal of P's controlled group. None of this discussion would be relevant if Central States were correct in its argument that a nonqualifying transaction triggers an immediate complete withdrawal by P's controlled group.

The court in *Santa Fe Pacific Corporation v. Central States, Southeast and Southwest Areas Pension Fund,* 1992 U.S. Dist. LEXIS 15159 (N.D.Ill. 1992), *rev'd on other grounds* 22 F.3d 725 (7th Cir.), *and cert. denied,* 130 L. Ed. 2d 396 (1994), has construed PBGC Opinion Letter No. 92-1 as providing that a partial withdrawal may occur as the result of a change in corporate structure that fails to satisfy § 1398. The court specifically acknowledges the PBGC's position that a sale of stock may result in a partial withdrawal if the sale does not qualify as a change in corporate structure under § 1398. Moreover, both the arbitrator and the district court noted that in the *Santa Fe* case, Central States had itself acknowledged the possibility of such partial withdrawal. *See* Petitioner's Appendix C, p. 42a and Appendix B, p. 27a. Thus it is clear that the decision below, to the effect that a stock sale which does not satisfy § 1398 may result in a partial withdrawal if

other members of the controlled group contribute to the plan, is not in conflict with the PBGC's interpretations of MPPAA.

D. The Decision Below Does Not Conflict With Decisions In Other Circuits.

As discussed above, Central States is attempting to bootstrap what is a nonissue in this case to suggest a conflict in the circuits. However, the question presented in this case was recognized by both the district court [*see* Petitioner's Appendix B, p. 27a] and the Seventh Circuit [*see* Petitioner's Appendix A, p. 11a] as a case of first impression. In connection with Central States' appeal of this case to the Seventh Circuit, Central States, in its "Reply Brief of Appellant Central States in Its Appeal (No. 95-1952) and Response Brief of Appellee Central States to Sherwin-Williams' Appeal (No. 95-2028)" at p. 18, has specifically referred to the fact that this case presents a question of first impression as a basis militating against Sherwin-Williams' claim for attorneys' fees:

> Judge Shadur concluded that this case 'presents a question of first impression,' and that neither party 'had been able to adduce authority on the special circumstances posed in this case.' . . . The presence of novel legal issues is an important consideration which, in most cases, militates against the award of attorney fees. *Davidson v. Canteen Corp.*, 957 F.2d 1404, 1409-10 (7th Cir. 1992).

Accordingly, it is impossible for the decision of the Seventh Circuit to be in conflict with the decisions of other circuits.

Each of the cases cited by Central States, in support of its assertion that a conflict exists, posed a different issue

than is present in the instant case. Both *Teamsters Pension Trust Fund v. Central Michigan Trucking*, 857 F.2d 1107 (6th Cir. 1988) and *Dorn's Transportation v. Teamsters Pension Trust Fund*, 787 F.2d 897 (3d Cir. 1986), involved sale of stock transactions where the § 1398 exemption was found to be applicable. *Penn Central Corp. v. Western Conference of Teamsters Pension Trust Fund*, 75 F.3d 529 (9th Cir. 1996), involved a sale of stock transaction where § 1398(1) was found not to be applicable to prevent a complete withdrawal; however, after the sale, neither Penn Central nor any of its subsidiaries was making ongoing contributions to the fund.

Again, since 29 U.S.C. § 1398(1) was expressly assumed to be inapplicable to this case, it is not determinative to the question presented in this case as to what transactions are deemed to come within the purview of § 1398(1)'s exemption. Furthermore, even if it would be considered relevant in answering the question here at issue, the decisions to which Central States refers have not expressly reached contrary conclusions. Rather, Central States contends in its Petition, at p. 19:

> . . . This places the Seventh Circuit in conflict with the Third, Sixth, and Ninth Circuits, each of which has held that § 1398 does apply to stock sales *and necessarily held (by implication)* that if the requirements of § 1398 are not met, then the sale of stock constitutes a withdrawal due to the dissolution of the control group. [Emphasis added]

In other words, Central States is extrapolating from the decisions which the Third, Sixth and Ninth Circuits rendered on a different, albeit related, issue and putting words into the mouths of these courts to say what these

courts would, in Central States' estimation, "necessarily [hold] (by implication)" on the different issue presented in this case in order to create a conflict where none exists.

II. PETITIONER'S POSITION CANNOT BE RECONCILED, AND IS IN CONFLICT WITH MPPAA'S EXPRESS STATUTORY LANGUAGE.

The interpretation of MPPAA's withdrawal liability provisions advocated by Central States in the proceedings below is fraught with problems. In arguing that the Sherwin-Williams control group ceased to exist upon the non-qualifying sale of Lyons notwithstanding the ongoing contributions of Dupli-Color, Central States has had to develop an entirely new, hybrid theory of a "partial complete withdrawal" that finds no basis in MPPAA. Central States has consistently maintained this position as most recently articulated by it to the Seventh Circuit:

> In this case, [Central States] assessed all members of the pre-stock sale controlled group (including Lyons, Sherwin-Williams and its non-Lyons subsidiaries) with a *complete* withdrawal. This complete withdrawal resulted from Sherwin-Williams' non-exempt sale of the stock of Lyons. But because the loss of the exemption was only caused by the 'interruption in employer [pension] contributions' *from Lyons* . . . [Central States] only used the pre-stock sale contribution history of Lyons as the mathematical basis for the assessment.. . . It is true that this differs from the way in which a *complete* withdrawal is ordinarily calculated. However, [Central States] used this method because it appeared that the pre-stock sale controlled group only lost the [§ 1398] exemption *to the extent of* the interruption in contri-

> butions from Lyons that resulted from the stock sale. That is, the stock sale only caused an interruption in pension contributions from Lyons, and so [Central States] only used the contribution history of Lyons to calculate this withdrawal.
>
> Therefore, the stock sale was not a 'partial/complete' withdrawal, but a complete withdrawal, subject to a partial exemption.

[Reply Brief of Appellant Central States in its Appeal (No. 95-1952) and Response Brief of Appellee Central States in Sherwin-Williams' Appeal (No. 95-2028), at pp. 13-14]

As reflected in Central States' own explanation, it has created a new "partial exemption," while acknowledging that "[i]t is true that this differs from the way in which a *complete* withdrawal is ordinarily calculated." Nowhere in MPPAA's comprehensive scheme is this notion found. Central States developed this notion because it realizes that the position it is advocating to impose a complete withdrawal on Sherwin-Williams creates horrific consequences which are clearly inappropriate under and unintended by MPPAA. Following the plain language of MPPAA, Central States' assessment of complete withdrawal liability on Sherwin-Williams would have the ludicrous result of imposing liability on Sherwin-Williams even with respect to the contribution history of Dupli-Color, while ignoring the fact that it is making ongoing contributions to Central States. 29 U.S.C. § 1391 sets forth the various permissible methods for computing withdrawal liability. Nowhere within § 1391 is there any reference or acknowledgment of the possibility of the application of a partial exemption from complete withdrawal liability.

Rather the computation is to be based in part upon "all contributions required to be made by the employer." *See* Respondent's Appendix, pp. A11-A26. Central States has gone to great lengths in its Petition to define the term "employer"; however, for purposes of its theory, it would deviate from its own definition and exclude the contribution history of those members of the Sherwin-Williams control group that are making contributions. Yet, it has suggested to this Court that it is not Central States' position but that of the court below that would do harm to the traditional view of the term "employer." [*See* Petition, pp. 5-6]

Central States has found itself in this dilemma in part because of its insistence that a non-qualifying sale of a subsidiary must result in a "complete" withdrawal. It has so argued because it seeks to make an immediate assessment against the employer under circumstances where an immediate partial withdrawal is not available. It is impatient and unwilling to recognize the fact that MPPAA has already in place the 70 percent contribution decline partial withdrawal mechanism by which it and other multiemployer pension funds can look for recovery, provided the requirements are satisfied.

However, by insisting that a failure to come within the exemption of 29 U.S.C. § 1398 must result in a complete withdrawal and charging the court below with failing to recognize the "successorship" language of § 1398, Central States has conveniently ignored § 1398(2). § 1398(2) provides a second exemption from withdrawal liability where an employer suspends contributions under a plan during a labor dispute involving its employees. Certainly, Central States has not suggested that but for the application of § 1398(2), the suspension of contributions with

respect to a single, small facility during a labor dispute, when the employer is continuing to make significant contributions to the pension fund with respect to the substantial part of its operations, would result in complete withdrawal liability. But yet, this is where its argument must lead, unless it creates another nonstatutory partial exemption.

III. THE DECISION BELOW IS CORRECT.

This Court has recently found, in *Concrete Pipe & Products of California, Inc. v. Construction Laborers Pension Trust for S. Cal.*, 508 U.S. 602, 124 L. Ed. 2d 539, 567 (1993), MPPAA to be less than a completely clear and coherent statute. Here again, as in *Concrete Pipe*, Central States' argument would create an incoherent and ridiculous result. Cool heads must make sense out of the language. Cool heads have now done so three times, reaching the same conclusion.

As discussed above, Central States' argument leads to such a ludicrous result that it must create its own exception without any statutory basis to avoid imposing upon Sherwin-Williams withdrawal liability even with respect to Dupli-Color, its subsidiary that continues making contributions to Central States. Sherwin-Williams saw the flaw in Central States' approach, as did the arbitrator and the district court and as did the Seventh Circuit.

The Seventh Circuit, in reviewing and comparing the decisions of the arbitrator and the district court, observed that the "district judge . . . took a different route to the same conclusion" (Petitioner's Appendix A, p. 4a). The arbitrator saw that the argument put forth by Central States was flawed:

> There are fundamental problems with the Fund's argument. Its asymmetrical approach to the stock sale is neither logical, nor supported by any cited arbitral or judicial precedents. . . . In effect, the Fund wishes the arbitrator to recognize the consequences which work to its advantage (the continuing financial liability of [Sherwin-Williams]), while disregarding those which work to its disadvantage (the continuation of the pre-sale [Sherwin-Williams] controlled group).

[Petitioner's Appendix C, pp. 39a-40a]

The district judge agreed with the arbitrator's analysis of Central States' "bifurcated approach" (*see* Petitioner's Appendix B, p. 18a) and joined the arbitrator "in his view that neither [Section 1398 nor Section 1392(c)] is directly applicable to the transactions at issue . . . " (*see* Petitioner's Appendix B, p. 21a-22a), but used a different analysis to reach its same conclusion. The Seventh Circuit saw the problems presented by Central States' position in a somewhat different light:

> Neither the arbitrator nor the district court directly confronted [Central States'] central argument: that when Sherwin-Williams sold its stock in Lyons, the old Sherwin-Williams group vanished, as if it had fallen into one of Kurt Vonnegut's chrono-synclastic infundibulums.

[Petitioner's Appendix A, p. 5a]

Although the Seventh Circuit rejected Central States' position as flawed and embraced that of Sherwin-Williams as logical and consistent with MPPAA's objectives and general statutory scheme, it wrestled with the specific

statutory construction applicable. The arbitrator had observed in light of Dupli-Color's ongoing contributions to Central States that:

> . . . if there had never been a sale of the Lyons stock, the cessation of the Lyons operation and/or contributions in October, 1990 would only have led to a partial withdrawal; but it would not have led to a complete withdrawal of the [Sherwin-Williams] controlled group. It makes little sense for the result to be different simply because a non-qualifying sale of the Lyons stock occurred on or about May 31, 1990.

[Petitioner's Appendix C, p. 40a]

Likewise, the Seventh Circuit appreciated that the sale of a subsidiary's stock should have withdrawal liability consequences no more severe than if that subsidiary were not sold but its operations merely shut down. *See* Petitioner's Appendix A, pp. 7a-8a.

Yet Central States continued, and still continues, to sing its song of complete withdrawal liability and beckon those who will listen to adhere to its logic. However, that logical (really, illogical) conclusion would frustrate the Congressional intent behind MPPAA and allow Central States and other pension funds to reap a windfall.

Although the Seventh Circuit may have strayed somewhat off course in its analysis, its destination was clear. The decisions below do no harm to the Congressional intent behind MPPAA or to its statutory scheme. Central States, like the Sirens in *The Odyssey,* attempted to draw the Seventh Circuit to an illogical and destructive

conclusion.[5] But like Odysseus, the court below steered its interpretation of MPPAA clear of the arguments with which Central States attempted to lure it onto the rocks.

It is the well-established policy of this Court that it reviews judgments, not statements in opinions. As this Court observed in *Black v. Cutter Laboratories,* 351 U.S. 292 (1956) at 298:

> . . . At times, the atmosphere in which an opinion is written may become so surcharged that unnecessarily broad statements are made. In such a case, it is our duty to look beyond the broad sweep of the language and determine for ourselves precisely the ground on which the judgment rests.

Thus, to the extent the Seventh Circuit may have strayed off course in its discussion of Treasury regulations under 26 C.F.R. § 1.1563-1, relating to controlled groups, for insight into the definition of "employer" under 29 U.S.C. § 1301(b)(1) and Section 414(c) of the Internal Revenue Code, this departure was not determinative of its decision. Rather, as discussed above, it was more by way of an intellectual exercise as to what might be included within the purview of the exemption to withdrawal liability provided by 29 U.S.C. § 1398, even though it was clear, for purposes of the instant case, that § 1398 was assumed to be inapplicable. Thus, the analysis put forth by the Seventh Circuit in this respect was tangential to, and not determinative of, its primary inquiry. Further, although the Seventh Circuit chose to wander down this path of

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[5] "If any man draws near in his innocence and listens to [the Sirens'] voice, he never sees home again . . ." Homer's *The Odyssey,* Book XII.

inquiry, neither the decision of the arbitrator nor that of the district court contained such discussion in reaching a similar conclusion to that of the Seventh Circuit with respect to the real question presented.

CONCLUSION

For these reasons, Central States' petition for a writ of certiorari should be denied.

Respectfully submitted,

Ronald Leo Kahn *Counsel of Record*
Harold H. Reader III
Patricia A. Shlonsky
Gregory A. Gordillo
ULMER & BERNE P.L.L.
1300 E. Ninth Street, Ste. 900
Cleveland, Ohio 44114-1583
(216) 621-8400

Ron M. Tamburrino
THE SHERWIN-WILLIAMS COMPANY
101 Prospect Avenue
Cleveland, Ohio 44115
(216) 566-2360

Mitchell A. Orpett *of Counsel*
TRIBLER & ORPETT, P.C.
30 North LaSalle Street, Ste. 2200
Chicago, Illinois 60602
(312) 201-6400

Attorneys for Respondent

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APPENDIX

UNITED STATES CODE ANNOTATED
TITLE 28. JUDICIARY AND JUDICIAL PROCEDURE
PART IV--JURISDICTION AND VENUE
CHAPTER 81--SUPREME COURT

§ 1254. Courts of appeals; certiorari; certified questions

Cases in the courts of appeals may be reviewed by the Supreme Court by the following methods:

(1) By writ of certiorari granted upon the petition of any party to any civil or criminal case, before or after rendition of judgment or decree;

(2) By certification at any time by a court of appeals of any question of law in any civil or criminal case as to which instructions are desired, and upon such certification the Supreme Court may give binding instructions or require the entire record to be sent up for decision of the entire matter in controversy.

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SUBCHAPTER III--PLAN TERMINATION INSURANCE
SUBTITLE E--SPECIAL PROVISIONS FOR MULTIEMPLOYER PLANS
PART 1--EMPLOYER WITHDRAWALS

§ 1383. Complete withdrawal

(a) Determinative factors

For purposes of this part, a complete withdrawal from a multiemployer plan occurs when an employer--

(1) permanently ceases to have an obligation to contribute under the plan, or

(2) permanently ceases all covered operations under the plan.

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§ 1384. Sale of assets

(a) Complete or partial withdrawal not occurring as a result of sale and subsequent cessation of covered operations or cessation of obligation to contribute to covered operations; continuation of liability of seller

(1) A complete or partial withdrawal of an employer (hereinafter in this section referred to as the "seller") under this section does not occur solely because, as a result of a bona fide, arm's-length sale of assets to an unrelated party (hereinafter in this section referred to as the "purchaser"), the seller ceases covered operations or ceases to have an obligation to contribute for such operations, if--

(A) the purchaser has an obligation to contribute to the plan with respect to the operations for substantially the same number of contribution base units for which the seller had an obligation to contribute to the plan;

(B) the purchaser provides to the plan for a period of 5 plan years commencing with the first plan year

beginning after the sale of assets, a bond issued by a corporate surety company that is an acceptable surety for purposes of section 1112 of this title, or an amount held in escrow by a bank or similar financial institution satisfactory to the plan, in an amount equal to the greater of--

(i) the average annual contribution required to be made by the seller with respect to the operations under the plan for the 3 plan years preceding the plan year in which the sale of the employer's assets occurs, or

(ii) the annual contribution that the seller was required to make with respect to the operations under the plan for the last plan year before the plan year in which the sale of the assets occurs,

which bond or escrow shall be paid to the plan if the purchaser withdraws from the plan, or fails to make a contribution to the plan when due, at any time during the first 5 plan years beginning after the sale; and

(C) the contract for sale provides that, if the purchaser withdraws in a complete withdrawal, or a partial withdrawal with respect to operations, during such first 5 plan years, the seller is secondarily liable for any withdrawal liability it would have had to the plan with respect to the operations (but for this section) if the liability of the purchaser with respect to the plan is not paid.

(2) If the purchaser--

(A) withdraws before the last day of the fifth plan year beginning after the sale, and

(B) fails to make any withdrawal liability payment when due,

then the seller shall pay to the plan an amount equal to the payment that would have been due from the seller but for this section.

(3)(A) If all, or substantially all, of the seller's assets are distributed, or if the seller is liquidated before the end of the 5 plan year period described in paragraph (1)(C), then the seller shall provide a bond or amount in escrow equal to the present value of the withdrawal liability the seller would have had but for this subsection.

(B) If only a portion of the seller's assets are distributed during such period, then a bond or escrow shall be required, in accordance with regulations prescribed by the corporation, in a manner consistent with subparagraph (A).

(4) The liability of the party furnishing a bond or escrow under this subsection shall be reduced, upon payment of the bond or escrow to the plan, by the amount thereof.

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§ 1385. Partial withdrawals

(a) Determinative factors

Except as otherwise provided in this section, there is a partial withdrawal by an employer from a plan on the last day of a plan year if for such plan year--

(1) there is a 70-percent contribution decline, or

(2) there is a partial cessation of the employer's contribution obligation.

(b) Criteria applicable

For purposes of subsection (a) of this section--

(1)(A) There is a 70-percent contribution decline for any plan year if during each plan year in the 3-year testing period the employer's contribution base units do not exceed 30 percent of the employer's contribution base units for the high base year.

(B) For purposes of subparagraph (A)--

(i) The term "3-year testing period" means the period consisting of the plan year and the immediately preceding 2 plan years.

(ii) The number of contribution base units for the high base year is the average number of such units for the 2 plan years for which the employer's contribution base units were the highest within the 5 plan years immediately preceding the beginning of the 3-year testing period.

(2)(A) There is a partial cessation of the employer's contribution obligation for the plan year if, during such year--

(i) the employer permanently ceases to have an obligation to contribute under one or more but fewer than all collective bargaining agreements under which the employer has been obligated to contribute under the plan but continues to perform work in the jurisdiction of the collective bargaining agreement of the type for which contributions were previously required or transfers such work to another location, or

(ii) an employer permanently ceases to have an obligation to contribute under the plan with respect to work performed at one or more but fewer than all of its facilities, but continues to perform work at the facility of the type for which the obligation to contribute ceased.

(B) For purposes of subparagraph (A), a cessation of obligations under a collective bargaining agreement shall not be considered to have occurred solely because, with

respect to the same plan, one agreement that requires contributions to the plan has been substituted for another agreement.

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§ 1391. Methods for computing withdrawal liability

(a) Determination of amount of unfunded vested benefits allocable to employer withdrawn from plan

The amount of the unfunded vested benefits allocable to an employer that withdraws from a plan shall be determined in accordance with subsection (b), (c), or (d) of this section.

(b) Factors determining computation of amount of unfunded vested benefits allocable to employer withdrawn from plan

(1) Except as provided in subsections (c) and (d) of this section, the amount of unfunded vested benefits allocable to an employer that withdraws is the sum of--

(A) the employer's proportional share of the unamortized amount of the change in the plan's unfunded

vested benefits for plan years ending after September 25, 1980, as determined under paragraph (2),[1]

(B) the employer's proportional share, if any, of the unamortized amount of the plan's unfunded vested benefits at the end of the plan year ending before September 26, 1980, as determined under paragraph (3); and

(C) the employer's proportional share of the unamortized amounts of the reallocated unfunded vested benefits (if any) as determined under paragraph (4).

If the sum of the amounts determined with respect to an employer under paragraphs (2), (3), and (4) is negative, the unfunded vested benefits allocable to the employer shall be zero.

(2)(A) An employer's proportional share of the unamortized amount of the change in the plan's unfunded vested benefits for plan years ending after September 25, 1980, is the sum of the employer's proportional shares of the unamortized amount of the change in unfunded vested benefits for each plan year in which the employer has an obligation to contribute under the plan ending--

(i) after such date, and

(ii) before the plan year in which the withdrawal of the employer occurs.

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[1]So in original. The comma should probably be a semicolon.

(B) The change in a plan's unfunded vested benefits for a plan year is the amount by which--

(i) the unfunded vested benefits at the end of the plan year; exceeds

(ii) the sum of--

(I) the unamortized amount of the unfunded vested benefits for the last plan year ending before September 26, 1980, and

(II) the sum of the unamortized amounts of the change in unfunded vested benefits for each plan year ending after September 25, 1980, and preceding the plan year for which the change is determined.

(C) The unamortized amount of the change in a plan's unfunded vested benefits with respect to a plan year is the change in unfunded vested benefits for the plan year, reduced by 5 percent of such change for each succeeding plan year.

(D) The unamortized amount of the unfunded vested benefits for the last plan year ending before September 26, 1980, is the amount of the unfunded vested benefits as of the end of that plan year reduced by 5 percent of such amount for each succeeding plan year.

(E) An employer's proportional share of the unamortized amount of a change in unfunded vested benefits is the product of--

(i) the unamortized amount of such change (as of the end of the plan year preceding the plan year in which the employer withdraws); multiplied by

(ii) a fraction--

(I) the numerator of which is the sum of the contributions required to be made under the plan by the employer for the year in which such change arose and for the 4 preceding plan years, and

(II) the denominator of which is the sum for the plan year in which such change arose and the 4 preceding plan years of all contributions made by employers who had an obligation to contribute under the plan for the plan year in which such change arose reduced by the contributions made in such years by employers who had withdrawn from the plan in the year in which the change arose.

(3) An employer's proportional share of the unamortized amount of the plan's unfunded vested benefits for the last plan year ending before September 26, 1980, is the product of--

(A) such unamortized amount; multiplied by--

(B) a fraction--

(i) the numerator of which is the sum of all contributions required to be made by the employer under the plan for the most recent 5 plan years ending before September 26, 1980, and

(ii) the denominator of which is the sum of all contributions made for the most recent 5 plan years ending before September 26, 1980, by all employers--

(I) who had an obligation to contribute under the plan for the first plan year ending on or after such date, and

(II) who had not withdrawn from the plan before such date.

(4)(A) An employer's proportional share of the unamortized amount of the reallocated unfunded vested benefits is the sum of the employer's proportional share of the unamortized amount of the reallocated unfunded vested benefits for each plan year ending before the plan year in which the employer withdrew from the plan.

(B) Except as otherwise provided in regulations prescribed by the corporation, the reallocated unfunded vested benefits for a plan year is the sum of--

(i) any amount which the plan sponsor determines in that plan year to be uncollectible for reasons arising out of cases or proceedings under Title 11, or similar proceedings.[2]

(ii) any amount which the plan sponsor determines in that plan year will not be assessed as a result of the operation of section 1389, 1399(c)(1)(B), or section 1405

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[2]So in original. The period probably should be a comma.

of this title against an employer to whom a notice described in section 1399 of this title has been sent, and

(iii) any amount which the plan sponsor determines to be uncollectible or unassessable in that plan year for other reasons under standards not inconsistent with regulations prescribed by the corporation.

(C) The unamortized amount of the reallocated unfunded vested benefits with respect to a plan year is the reallocated unfunded vested benefits for the plan year, reduced by 5 percent of such reallocated unfunded vested benefits for each succeeding plan year.

(D) An employer's proportional share of the unamortized amount of the reallocated unfunded vested benefits with respect to a plan year is the product of--

(i) the unamortized amount of the reallocated unfunded vested benefits (as of the end of the plan year preceding the plan year in which the employer withdraws); multiplied by

(ii) the fraction defined in paragraph (2)(E)(ii).

(c) Amendment of multiemployer plan for determination respecting amount of unfunded vested benefits allocable to employer withdrawn from plan; factors determining computation of amount

(1) A multiemployer plan, other than a plan which primarily covers employees in the building and construction industry, may be amended to provide that the amount of unfunded vested benefits allocable to an

employer that withdraws from the plan is an amount determined under paragraph (2), (3), (4), or (5) of this subsection, rather than under subsection (b) or (d) of this section. A plan described in section 1383(b)(1)(B)(i) of this title (relating to the building and construction industry) may be amended, to the extent provided in regulations prescribed by the corporation, to provide that the amount of the unfunded vested benefits allocable to an employer not described in section 1383(b)(1)(A) of this title shall be determined in a manner different from that provided in subsection (b) of this section.

(2)(A) The amount of the unfunded vested benefits allocable to any employer under this paragraph is the sum of the amounts determined under subparagraphs (B) and (C).

(B) The amount determined under this subparagraph is the product of--

(i) the plan's unfunded vested benefits as of the end of the last plan year ending before September 26, 1980, reduced as if those obligations were being fully amortized in level annual installments over 15 years beginning with the first plan year ending on or after such date; multiplied by

(ii) a fraction--

(I) the numerator of which is the sum of all contributions required to be made by the employer under the plan for the last 5 plan years ending before September 26, 1980, and

(II) the denominator of which is the sum of all contributions made for the last 5 plan years ending before September 26, 1980, by all employers who had an obligation to contribute under the plan for the first plan year ending after September 25, 1980, and who had not withdrawn from the plan before such date.

(C) The amount determined under this subparagraph is the product of--

(i) an amount equal to--

(I) the plan's unfunded vested benefits as of the end of the plan year preceding the plan year in which the employer withdraws, less

(II) the sum of the value as of such date of all outstanding claims for withdrawal liability which can reasonably be expected to be collected, with respect to employers withdrawing before such plan year, and that portion of the amount determined under subparagraph (B)(i) which is allocable to employers who have an obligation to contribute under the plan in the plan year preceding the plan year in which the employer withdraws and who also had an obligation to contribute under the plan for the first plan year ending after September 25, 1980; multiplied by

(ii) a fraction--

(I) the numerator of which is the total amount required to be contributed under the plan by the employer for the last 5 plan years ending before the date on which the employer withdraws, and

(II) the denominator of which is the total amount contributed under the plan by all employers for the last 5 plan years ending before the date on which the employer withdraws, increased by the amount of any employer contributions owed with respect to earlier periods which were collected in those plan years, and decreased by any amount contributed by an employer who withdrew from the plan under this part during those plan years.

(D) The corporation may by regulation permit adjustments in any denominator under this section, consistent with the purposes of this subchapter, where such adjustment would be appropriate to ease administrative burdens of plan sponsors in calculating such denominators.

(3) The amount of the unfunded vested benefits allocable to an employer under this paragraph is the product of--

(A) the plan's unfunded vested benefits as of the end of the plan year preceding the plan year in which the employer withdraws, less the value as of the end of such year of all outstanding claims for withdrawal liability which can reasonably be expected to be collected from employers withdrawing before such year; multiplied by

(B) a fraction--

(i) the numerator of which is the total amount required to be contributed by the employer under the plan for the last 5 plan years ending before the withdrawal, and

(ii) the denominator of which is the total amount contributed under the plan by all employers for the last 5 plan years ending before the withdrawal, increased by any employer contributions owed with respect to earlier periods which were collected in those plan years, and decreased by any amount contributed to the plan during those plan years by employers who withdrew from the plan under this section during those plan years.

(4)(A) The amount of the unfunded vested benefits allocable to an employer under this paragraph is equal to the sum of--

(i) the plan's unfunded vested benefits which are attributable to participants' service with the employer (determined as of the end of the plan year preceding the plan year in which the employer withdraws), and

(ii) the employer's proportional share of any unfunded vested benefits which are not attributable to service with the employer or other employers who are obligated to contribute under the plan in the plan year preceding the plan year in which the employer withdraws (determined as of the end of the plan year preceding the plan year in which the employer withdraws).

(B) The plan's unfunded vested benefits which are attributable to participants' service with the employer is the amount equal to the value of nonforfeitable benefits under the plan which are attributable to participants' service with such employer (determined under plan rules not inconsistent with regulations of the corporation) decreased by the share of plan assets determined under

subparagraph (C) which is allocated to the employer as provided under subparagraph (D).

(C) The value of plan assets determined under this subparagraph is the value of plan assets allocated to nonforfeitable benefits which are attributable to service with the employers who have an obligation to contribute under the plan in the plan year preceding the plan year in which the employer withdraws, which is determined by multiplying--

(i) the value of the plan assets as of the end of the plan year preceding the plan year in which the employer withdraws, by

(ii) a fraction--

(I) the numerator of which is the value of nonforfeitable benefits which are attributable to service with such employers, and

(II) the denominator of which is the value of all nonforfeitable benefits under the plan

as of the end of the plan year.

(D) The share of plan assets, determined under subparagraph (C), which is allocated to the employer shall be determined in accordance with one of the following methods which shall be adopted by the plan by amendment:

(i) by multiplying the value of plan assets determined under subparagraph (C) by a fraction--

(I) the numerator of which is the value of the nonforfeitable benefits which are attributable to service with the employer, and

(II) the denominator of which is the value of the nonforfeitable benefits which are attributable to service with all employers who have an obligation to contribute under the plan in the plan year preceding the plan year in which the employer withdraws;

(ii) by multiplying the value of plan assets determined under subparagraph (C) by a fraction--

(I) the numerator of which is the sum of all contributions (accumulated with interest) which have been made to the plan by the employer for the plan year preceding the plan year in which the employer withdraws and all preceding plan years; and

(II) the denominator of which is the sum of all contributions (accumulated with interest) which have been made to the plan (for the plan year preceding the plan year in which the employer withdraws and all preceding plan years) by all employers who have an obligation to contribute to the plan for the plan year preceding the plan year in which the employer withdraws; or

(iii) by multiplying the value of plan assets under subparagraph (C) by a fraction--

(I) the numerator of which is the amount determined under clause (ii)(I) of this subparagraph, less the sum of

benefit payments (accumulated with interest) made to participants (and their beneficiaries) for the plan years described in such clause (ii)(I) which are attributable to service with the employer; and

(II) the denominator of which is the amount determined under clause (ii)(II) of this subparagraph, reduced by the sum of benefit payments (accumulated with interest) made to participants (and their beneficiaries) for the plan years described in such clause (ii)(II) which are attributable to service with respect to the employers described in such clause (ii)(II).

(E) The amount of the plan's unfunded vested benefits for a plan year preceding the plan year in which an employer withdraws, which is not attributable to service with employers who have an obligation to contribute under the plan in the plan year preceding the plan year in which such employer withdraws, is equal to--

(i) an amount equal to--

(I) the value of all nonforfeitable benefits under the plan at the end of such plan year, reduced by

(II) the value of nonforfeitable benefits under the plan at the end of such plan year which are attributable to participants' service with employers who have an obligation to contribute under the plan for such plan year; reduced by

(ii) an amount equal to--

(I) the value of the plan assets as of the end of such plan year, reduced by

(II) the value of plan assets as of the end of such plan year as determined under subparagraph (C); reduced by

(iii) the value of all outstanding claims for withdrawal liability which can reasonably be expected to be collected with respect to employers withdrawing before the year preceding the plan year in which the employer withdraws.

(F) The employer's proportional share described in subparagraph (A)(ii) for a plan year is the amount determined under subparagraph (E) for the employer, but not in excess of an amount which bears the same ratio to the sum of the amounts determined under subparagraph (E) for all employers under the plan as the amount determined under subparagraph (C) for the employer bears to the sum of the amounts determined under subparagraph (C) for all employers under the plan.

(G) The corporation may prescribe by regulation other methods which a plan may adopt for allocating assets to determine the amount of the unfunded vested benefits attributable to service with the employer and to determine the employer's share of unfunded vested benefits not attributable to service with employers who have an obligation to contribute under the plan in the plan year in which the employer withdraws.

(5)(A) The corporation shall prescribe by regulation a procedure by which a plan may, by amendment, adopt any other alternative method for determining an employer's allocable share of unfunded vested benefits under this

section, subject to the approval of the corporation based on its determination that adoption of the method by the plan would not significantly increase the risk of loss to plan participants and beneficiaries or to the corporation.

(B) The corporation may prescribe by regulation standard approaches for alternative methods, other than those set forth in the preceding paragraphs of this subsection, which a plan may adopt under subparagraph (A), for which the corporation may waive or modify the approval requirements of subparagraph (A). Any alternative method shall provide for the allocation of substantially all of a plan's unfunded vested benefits among employers who have an obligation to contribute under the plan.

(C) Unless the corporation by regulation provides otherwise, a plan may be amended to provide that a period of more than 5 but not more than 10 plan years may be used for determining the numerator and denominator of any fraction which is used under any method authorized under this section for determining an employer's allocable share of unfunded vested benefits under this section.

(D) The corporation may by regulation permit adjustments in any denominator under this section, consistent with the purposes of this subchapter, where such adjustment would be appropriate to ease administrative burdens of plan sponsors in calculating such denominators.

(d) Method of calculating allocable share of employer of unfunded vested benefits set forth in subsection (c)(3) of this section; applicability of certain statutory provisions

(1) The method of calculating an employer's allocable share of unfunded vested benefits set forth in subsection (c)(3) of this section shall be the method for calculating an employer's allocable share of unfunded vested benefits under a plan to which section 404(c) of Title 26, or a continuation of such a plan, applies, unless the plan is amended to adopt another method authorized under subsection (b) or (c) of this section.

(2) Sections 1384, 1389, 1399(c)(1)(B), and 1405 of this title shall not apply with respect to the withdrawal of an employer from a plan described in paragraph (1) unless the plan is amended to provide that any of such sections apply.

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§ 1392. Obligation to contribute

(c) Transactions to evade or avoid liability

If a principal purpose of any transaction is to evade or avoid liability under this part, this part shall be applied (and liability shall be determined and collected) without regard to such transaction.

Pension Benefit Guaranty Corporation
Opinion Letter 93-3, October 14, 1993.

We write in response to your inquiry. You ask whether the PBGC adheres to the interpretation of section 4225 of the Employee Retirement Income Security Act of 1974 ("ERISA"), as amended by the Multiemployer Pension Plan Amendments Act of 1980 ("MPPAA"), set forth in its *amicus curiae* brief in *Trustees of the Amalgamated Insurance Fund v. Geltman Industries*, 784 F.2d 926 (9th Cir. 1986). In its brief, PBGC addressed the proper application of ERISA §§ 4225(a) and 4225(b) where the withdrawn employer satisfies the prerequisites for the application of both subsections. PBGC expressed the view that an employer meeting the criteria in both subsections (a) and (b) may elect the limitation that yields the lesser of the amounts determined under the two subsections. The Ninth Circuit, however, reached a contrary conclusion. 784 F.2d at 929-30. For the reasons set out below, PBGC continues to believe that its interpretation of ERISA §§ 4225(a) and 4225(b) is correct as a matter of law.

Under ERISA § 4225(a)(1)(A), an employer who withdraws in connection with a "bona fide sale of substantially all of [its] assets in an arm's-length transaction to an unrelated party" will ordinarily be permitted to retain a portion of its dissolution value. The *Geltman* court, however, citing "the language and . . . structure" and the "underlying policies of ERISA and MPPAA," concluded that an "insolvent" employer must be denied relief under subsection (a)(1)(A), because subsection (b) provides a different liability limit that is

explicitly directed to "an insolvent employer undergoing liquidation or dissolution."

This analysis overlooks several pertinent points. First, when Congress intended to deny classes of employers relief under section 4225, it did so explicitly. *See* ERISA § 4211(d) (prohibiting application of section 4225 to employers who withdraw from coal-industry pension plans). Significantly, nothing in the language of section 4225 suggests that subsections (a) and (b) are mutually exclusive.[1] The two provisions have separate factual prerequisites, and provide different types of relief. So long as an employer satisfies the requirements of both subsections, it should qualify for relief under either rule, and its liability should not exceed the lesser of the amounts determined under the two subsections.

This conclusion is further supported by the technical definition of "insolvency" included in section 4225. Under section 4225(d)(1), "an employer is insolvent if [its] liabilities, including withdrawal liability under the plan (determined without regard to *subsection (b)*), exceed [its] assets (determined as of the commencement of the

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[1]Sections 4225(a) and (b) both begin with the phrase "in the case of an employer." The *Geltman* court suggested this phrase was "evidence that the sections are to operate exclusive of each other . . . ." This suggestion is manifestly incorrect. The phrase "in the case of" is used as an introduction to at least 30 provisions of MPPAA; in each such instance, it is used in its normal statutory sense, as a synonym for "when" or "if". 20A Words and Phrases 75 (1959 & Supp. 1983).

liquidation or dissolution)" (emphasis added). Section 4201(b)(1)(D) defines "withdrawal liability" as including adjustment pursuant to section 4225. Thus, the use of the term "withdrawal liability" in the definition of insolvency incorporates any reduction in withdrawal liability resulting from the application of section 4225 (including subsection (a)) except the reduction set out in section 4225(b), which is specifically excluded.[2]

PBGC believes that its interpretation of section 4225 is fully consistent with the "underlying policies of ERISA and MPPAA." Section 4225 is but one of several ERISA provisions that limit the amount of withdrawal liability imposed upon withdrawing employers.[3] Nothing in the congressional findings and policy declarations that preface MPPAA indicate that the withdrawal liability limitation provisions should be construed to maximize the liability of an employer. *See* MPPAA § 3, codified at 29 U.S.C. § 1001a. The same is true of the legislative history.

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[2]The decision is therefore incorrect when it states that whether "an employer is an insolvent employer . . . is done by looking to the provisions of [section 4225(d)(1)] without regard to [section 4225(a)]." *Geltman*, 784 F.2d at 929.

[3]*See, e.g.*, ERISA §§ 4203(b), (c), (d), and (f), 4204, 4207, 4208, 4209, 4210, 4217, 4218, 4219(c)(1)(B), 4224, and 4225. The Supreme Court has noted with approval Congress's efforts to moderate the impact of withdrawal liability on employers, including Congress's effort in section 4225. *Connally v. PBGC*, 475 U.S. 211, 225, 226 n.8 (1986).

Finally, the interpretation offered in *Geltman* makes little economic sense. Under the rationale of the decision, an employer whose liabilities exceeded its assets by only one dollar is "insolvent" and would automatically forfeit any relief under section 4225(a)(1)(A). In contrast, if the employer's assets were one dollar greater than liabilities, the full liability limitation would apply.[4] As discussed above, the application of the plain language of the statute avoids this sort of anomaly.

In conclusion, the plain wording of section 4225 dictates that an employer that meets the requirements of both subsections (a) and (b) is entitled to an assessment of withdrawal liability that does not exceed the lesser of the amounts determined under (a) and (b). Neither the legislative purpose nor principles of statutory construction compel a contrary conclusion. The PBGC therefore continues to adhere to the position stated in its brief *amicus curiae*.

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[4]The attached table, drawn from the PBGC's *amicus* brief, illustrates the dramatic increase in employer liability caused by the single dollar difference.

I trust this responds to your question. If you have further questions regarding this matter, please contact Karen Morris of my staff at (202) 778-8822.

Sincerely,

Carol Connor Flowe
General Counsel

[Addendum referenced in footnote 4 deleted as not being germane to the subject matter for which PBGC Op. Ltr. 93-3 is being cited]

No. 92 C 0677

UNITED STATES DISTRICT COURT FOR THE
NORTHERN DISTRICT OF
ILLINOIS, EASTERN DIVISION

SANTA FE PACIFIC CORPORATION, Plaintiff,
v.
CENTRAL STATES, SOUTHEAST AND
SOUTHWEST AREAS PENSION FUND, Defendant.

October 6, 1992, Decided
October 7, 1992, Docketed

OPINION: Hon. Paul E. Plunkett

MEMORANDUM OPINION AND ORDER

Defendant Central States, Southeast and Southwest Areas Pension Fund ("Central States") has moved under Rule 59(e) of the Federal Rules of Civil Procedure to alter or amend our Memorandum Opinion and Order of August 20, 1992 (the "Opinion"). In that Opinion, we granted Central States' motion to vacate the arbitrator's award, and we remanded this case to the arbitrator for clarification of the standard he applied under *29 U.S.C. § 1392(c)*. We also denied Plaintiff Santa Fe Pacific Corporation's ("Santa Fe") motion to confirm the arbitrator's award.

Central States raises three issues in its current motion. First, it asserts that we misunderstood its argument that Santa Fe is liable for a partial withdrawal because of a seventy percent decline in contribution levels, and it asks us to remand this issue to the arbitrator.[1] Second, it requests clarification regarding our suggestion in the Opinion that the two-pronged "objective/subjective" test formulated by Judge Moran in *In re Int'l Harvester's Disp. of Wisconsin Steel Litig., 681 F. Supp. 512 (N.D. Ill. 1988)*, is an appropriate guideline for determining a violation of *29 U.S.C. § 1392(c)*. Third, it requests that we remand this case to a new arbitrator. We have already rejected the last request,[2] so we address only the first two issues in this Opinion. For the reasons set forth below, we grant Central States' motion in part and deny it in part.

Discussion

We note as a preliminary matter that Rule 59(e) is not available to Central States given the posture of this case. Rule 59(e) applies only to "final" judgments. *National R.R. Passenger Corp. v. New Castle County, 636 F. Supp. 1482, 1486 (D. Del. 1986)*. "'Judgment' as used in [the Federal Rules of Civil Procedure] includes a decree and any order from which an appeal lies." Fed. R. Civ. P. 54(a). Our decision, set forth in the Opinion, is not an

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[1]Central States asked alternatively that we certify the seventy percent decline issue to the Court of Appeals. We denied this request in our Order of September 11, 1992.

[2]See Order of September 11, 1992.

appealable order, for the parties must move again in this Court to confirm or to vacate the arbitrator's award after the arbitrator issues his new Report.

As a result, if we are to consider the motion at all, we must treat it as a common law motion for reconsideration. Rodgers v. Sullivan, 1991 WL 274446, n.1 (N.D. Ill. Dec. 13, 1991); *Above the Belt v. Mel Bohannan Roofing, 99 F.R.D. 99, 101 (E.D. Va. 1983)*. Because we believe that consideration of the issues presented in the motion will clarify our views for the benefit of the arbitrator, we will consider them.

I. Partial Withdrawal Liability

Central States had argued in its motion to vacate the arbitrator's award that the arbitrator had failed to rule on the threshold question of whether Santa Fe had experienced a seventy percent decline in contribution levels from 1983 through 1985 so as to constitute a partial withdrawal under *29 U.S.C. § 1385* (1985). We rejected this argument at that time because we found that Central States was attempting to hold Santa Fe responsible for the withdrawal liability of SFTT alone, but that at the time of Santa Fe's sale of SFTT, which occurred midway through the three-year test period required by § 1385, SFTT may have ceased to be a member of the Santa Fe control group and may have become a member of the Rail Services, Inc., control group. We held:

Central States cannot attribute SFTT's contribution levels in the latter half of 1984 and in 1985 to Santa Fe at all unless Central States can avail itself of § 1392(c), so that the sale can be disregarded, or unless Central States

can show the sale of SFTT's stock was not a change in corporate structure within the meaning of § 1398.

Opinion at 7-8.

We noted in the Opinion that Central States had failed to provide us with a single citation to the arbitration record to demonstrate that the contribution levels of any entity purportedly in the Santa Fe control group, other than SFTT, were submitted in evidence to the arbitrator. Now Central States provides to us for the first time information apparently compiled from Central States Exhibit 177, one of well over one hundred exhibits (as best we recall) that were used during the arbitration. On the basis of the information taken from this exhibit, Central States now attempts to give us facts to demonstrate the existence of the seventy percent decline in the Santa Fe control group's contribution levels.

Central States may not remedy on a motion for reconsideration omissions it made earlier in these proceedings. See *United States ex rel. Lynch v. Sandahl, 793 F. Supp. 787, 795-96 (N.D. Ill. 1992)* ("[A] motion for reconsideration may not be employed as a vehicle to introduce new evidence that could have been produced prior to the entry of judgment.") Central States has had repeated opportunities to present this argument but has consistently failed to do so in a coherent manner. Before the arbitrator, Central States relied on two theories: first, that Santa Fe's sale of SFTT violated § 1392(c) because Santa Fe sold SFTT with the intent to "evade or avoid" its liabilities under the MPPAA; and second, that the sale did not constitute a "change in corporate structure" within the meaning of *29 U.S.C. § 1398*. But it did not tell the

arbitrator (in any meaningful manner that we could discern from the arbitration record) that it was relying on the seventy percent decline issue. Having failed to present the issue to the arbitrator for decision, Central States then addressed it squarely for the first time in its motion to vacate. Still, it failed to support its argument with any evidence which demonstrated that it had calculated the seventy percent decline based on the contribution levels of any entity other than SFTT.[3] Finally, in this motion, Central States has gotten around to identifying the specific evidence which it claims supports its position.

This is a problem, however, for Central States obviously knew about Exhibit 177, and the information it contained relating to the seventy percent decline, at the time of the arbitration hearing. It also knew about Exhibit 177 when it asked this Court to vacate the arbitrator's award. We believe that its failure to identify the evidence supporting its argument about a seventy percent decline before now is inexcusable. This piecemeal presentation of the issue has forced the parties and this Court to consider the issue twice, and, if we remand this issue as Central States requests, it would force the arbitrator to re-open the hearing as well. We are extremely dismayed by the cavalier manner in which Central States has repeatedly wasted the time and energy of everyone involved in this case.

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[3]As we noted in the Opinion, Central States' argument on this issue in its brief in support of its motion to vacate contained no record citations at all. Opinion at 7.

> And, to make matters worse, we think Central States' argument is wrong. As we said when we first rejected this argument, when SFTT left the Santa Fe control group in 1984, it took its contribution history with it. See § 1398. Unless Central States can establish that SFTT remained in the Santa Fe control group following the sale, a fact that cannot be assumed, Santa Fe had no responsibility for SFTT's contribution levels or withdrawal liability after 1984.

Opinion at 8. Thus, even with the information Central States now offers from Exhibit 177, Central States cannot succeed, for we believe that SFTT's contribution history followed it at the time of the sale. As a result, if Central States wanted to impose withdrawal liability on the Santa Fe control group, which after 1984 was composed solely of Santa Fe Terminal, such liability would have to be calculated on Santa Fe Terminal's contribution history alone.[4] As Central States' chart in its brief shows, this is not the calculation Central States made. (Def.'s Br. at 3.)

Central States argues that the PBGC has expressed the opinion that where a change in corporate structure within the meaning of § 1398 occurs, an "equitable allocation" of the resulting withdrawal liability must be made. Def.'s Br. at 7; see PBGC Op. Letter 92-1, *1992 PBGC-LEXIS 1* (March 30, 1992). Central States misstates the PBGC's position, which is that typically an allocation of the contribution history of the sold entity would be made between all entities which are "successors" within the

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[4]Santa Fe Terminal is merely another subsidiary of Santa Fe Pacific Corporation. See Def.'s Br. at 3.

meaning of § 1398. PBGC Op. Letter 92-1, 1992 PBGC-LEXIS at *6. Equitable allocation of contribution history is quite different than equitable allocation of withdrawal liability, for once the contribution history is allocated, there may be no withdrawal liability at all. We note also that the factual scenario which forms the basis of the PBGC's opinion is distinguishable from the factual scenario here, for the Santa Fe control group at issue here includes only SFTT and Santa Fe Terminal. Here, there is no "parent" corporation, as there is in the PBGC's hypothetical (see 1992 PBGC-LEXIS at *2), to which some portion of SFTT's contribution history should be allocated due to a history of "large transfers of covered operations or covered employees between members of the controlled group, or other unusual factors" (1992 PBGC-LEXIS at *6). There is only Santa Fe Terminal.[5] We can see no reason why Santa Fe Terminal, which has its own contribution history, should be allocated any portion of SFTT's contribution history.

Central States urges us to apply the PBGC's analysis regarding partial withdrawal liability as well. The PBGC suggests that where a seventy percent decline did not occur "solely because" of a change in corporate structure under § 1398, the sold subsidiary's contribution history must be included in determining the high base year of the parent's control group. 1992 PBGC-LEXIS at *10. This assumes that the sold subsidiary's contribution history stays with the parent for purposes of calculating a seventy

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[5]Central States, in its briefing earlier and on this motion, is basing its argument on a control group composed of only SFTT and Santa Fe Terminal. See Def.'s Br. at 3.

percent decline under § 1385. However, the PBGC's analysis disregards completely the future operations of the sold subsidiary. As Santa Fe points out, this analysis would result in the imposition of partial withdrawal liability on a seller corporation even if the sold subsidiary had prospered (and all contributions had been paid by the purchaser) after the sale. This results in a windfall to the pension plan, which is paid twice for the unfunded vested pension benefit liability of the sold subsidiary: once by the seller, who pays the partial withdrawal liability, and a second time by the purchaser, who continues all contributions. Since this double payment would not occur if the subsidiary were never sold, we see little reason why it should occur merely because of the sale, where the sale does not result in any interruption of contributions by the sold entity. We do not read § 1385 to require this result.[6] We believe the better interpretation is the one we discussed above: the contribution history of the sold entity goes with it after the sale.[7] This analysis should apply regardless of whether the sold subsidiary flourishes or

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[6]The MPPAA generally, and § 1385 specifically, are silent on the issue of how to treat the contribution history of an entity that is sold. We believe that our conclusion is consistent with the rationale of § 1398 that "a successor or parent corporation or other entity resulting from any such change [in corporate structure] shall be considered the original employer." *29 U.S.C. §1398.*

[7]We have little doubt that Central States served the notice of withdrawal liability on Santa Fe only because the Rail Services, Inc., control group (which SFTT joined after the sale) never paid SFTT's withdrawal liability, and that Central States would not have assessed partial withdrawal liability on Santa Fe if SFTT had not gone under. Under the analysis it proposes now, however, it was entitled to impose that liability on Santa Fe regardless of SFTT's fate.

fails, since § 1385 does not require that the result depend on such circumstances.

For all of these reasons, we deny Central States' motion on the seventy percent decline issue.

II. The Wisconsin Steel Test

Central States also asks us to reconsider our suggestion that the two-pronged "objective/subjective" test formulated by Judge Moran in *In re Int'l Harvester's Disp. of Wisconsin Steel Litig., 681 F. Supp. 512 (N.D. Ill. 1988)*, is an appropriate guideline for determining a violation of *29 U.S.C. § 1392(c)*. See Opinion at 10. As Central States points out, Judge Moran in fact concluded that where the statutory provision contained language nearly identical to the language of § 1392(c), the objective prong of the test was inapplicable. See *Wisconsin Steel, 681 F. Supp. at 527.*

We agree with both Central States and Judge Moran, and we modify the Opinion regarding use of two-pronged Wisconsin Steel test. The language of § 1392(c), "a principal purpose . . . to evade or avoid liability," focuses on subjective intent alone. The inclusion of the objective prong of the test as a requirement of equal weight to the subjective prong would add to § 1392(c) an additional consideration that is not supported by the language of §1392(c) itself.

We believe, however, that in the vast majority of cases objective facts regarding the viability of the purchaser will carry substantial weight as evidence of the seller's subjective intent. Thus, the objective viability of the purchaser, while not a separate prong entitled to equal

consideration, will generally be a major factor in determining whether a seller had as "a principal purpose" the evasion or avoidance of liability. We believe this approach is consistent with the language of § 1392(c).

Our modification of the Opinion regarding the Wisconsin Steel test does not change the standard we articulated in the Opinion regarding § 1392(c). There we suggested the Wisconsin Steel test only in the context of Central States' argument that the arbitrator should have considered only Santa Fe's subjective intent, not the interest of the McKee-led employee group in purchasing SFTT. Opinion at 10. Thus, our conclusion regarding the proper standard to be applied under § 1392(c) remains the same. See Opinion at 3-5.

We add a caveat here as we did in the Opinion: we offer no opinion on whether the Wisconsin Steel test and the related analysis of subjective intent must be revisited on remand. See Opinion at 10. We have clarified our earlier discussion only to provide guidance; the arbitrator is free to determine if the issue is necessary to his clarification of the standard he applied under §1392(c).

III. Santa Fe's Request for Reconsideration

Although Santa Fe failed to bring its own motion, it asks us to affirm the "sham" standard under § 1392(c) based on this Court's prior ruling in *Banner Indus. Inc. v. Central States Pension Fund, 657 F. Supp. 875 (N.D. Ill. 1987)* and the Seventh Circuit's recent decision in Central States v. Cullum Cos., Inc., No. 91-2844, slip op. (Sept. 1,

1992). We rejected this argument when Santa Fe proposed it in its motion to confirm the arbitrator's award.

Having rejected this argument once, we will not affirm the "sham" standard now. What Santa Fe has done is merely to reiterate the arguments it made in its motion to confirm the arbitrator's award, an inappropriate use of a motion for reconsideration.[8] *United States ex rel. Lynch v. Sandahl, 793 F. Supp. 787, 796 (N.D. Ill. 1992).*[9] What Santa Fe has not done is give us a good reason to change our mind.

Santa Fe has brought to our attention the Seventh Circuit's recent decision in Central States v. Cullum Cos.,

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[8]We disagree with Santa Fe that this Court's decision in *Banner Industries, Inc. v. Central States, 657 F. Supp. 875 (N.D. Ill. 1987)*, is inconsistent with our Opinion in this case. The issue before us in Banner Industries was not the appropriate standard under § 1392(c), but whether the determination that Banner's sale of its subsidiary's stock to an ESOP caused Banner to cease to be an "employer" under the MPPAA, and whether that question had to be decided by this Court or an arbitrator. *657 F. Supp. at 879-83.* Nothing in that decision constitutes a holding that the language of § 1392(c) requires a finding that a transaction must be a "sham" or "fraud" to violate that provision, which is the position Santa Fe wishes us to take now.

[9]As the Court said in Lynch, "'This Court's opinions are not intended as mere first drafts, subject to revision and reconsideration at a litigant's pleasure.'" *793 F.2d at 796 (quoting Quaker Alloy Casting Co. v. Gulfco Indus., Inc., 123 F.R.D. 282, 288 (N.D. Ill. 1988)).* The argument that we were wrong in rejecting the "sham" standard is more properly addressed to the Court of Appeals. See *Refrigeration Sales Co. v. Mitchell-Jackson, Inc., 605 F. Supp. 6, 7 (N.D. Ill. 1983), aff'd, 770 F.2d 98 (7th Cir. 1985).*

Inc., 1992 WL 209694 (Sept. 1, 1992). As we read that decision, it is neither inconsistent with the standard under § 1392(c) that we articulated in the Opinion nor in any way controlling in this case. Cullum did not address the question of the standard under § 1392(c), for the case did not involve that provision, as the Seventh Circuit noted. 1992 WL 209694, at *6 ("The parties agree that neither [*29 U.S.C. § 1384(a)(1)* nor *29 U.S.C. § 1392(c)*] applies in this case.") The Court mentioned the words "sham transactions" only in considering the arbitrator's express concern that § 1384(a)(1)(A) did not adequately safeguard the pension plan's interests. *Id.*[10] Section 1384 explicitly exempts a "bona fide, arms-length sale of assets" from withdrawal liability. Id. We believe that the standard of "sham" or "fraud" is clearly appropriate under the "bona fide, arms-length" language of § 1384, for the focus there is an objective one. In contrast, § 1392(c) does not

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[10]The Seventh Circuit's discussion of the "sham transaction" issue states, in its entirety: The third flaw in the arbitrator's analysis is his belief that taking section 1384(a)(1)(A) at face value would 'emasculate the intended purpose of preventing erosion of the plan's contribution base.' Section 1384 taken as a whole does not leave multiemployer pension plans or employees unprotected. The pension plans and employees are protected, but the safeguards appear in other subsections of section 1384 and the MPPAA. For example, the section 1384 exemption applies only to 'bona fide, arm's-length sale of assets to an unrelated party.' *29 U.S.C. § 1384(a)(1)*. Similarly, *29 U.S.C. § 1392(c)* provides that 'if a principal purpose of any transaction is to evade or avoid liability,' the withdrawal liability provisions of the MPPAA 'shall be applied (and liability shall be determined and collected) without regard to such transaction.' These two provisions ensure that businesses cannot avoid withdrawal liability through sham transactions. The parties agree that neither provision applies in this case. 1991 WL 209694, at *6.

exempt a "bona fide, arms-length" transaction; rather, it prohibits any transaction which has as "a principal purpose" the evasion or avoidance of liability. By this language, it focuses on the subjective intent of the seller. We do not read the Seventh Circuit's limited discussion in Cullum as a determination that a transaction must constitute a "sham" or "fraud" to violate § 1392(c).

The standard we articulated in the Opinion, that evasion or avoidance of liability must be a significant or central factor behind a transaction, is less stringent than the "sham" or "fraud" standard which Santa Fe advocates. Obviously, under our standard any transaction which constituted a "sham" or "fraud" would violate § 1392(c); so would a transaction which was not a "sham" or "fraud" but had as "a principal purpose" the evasion or avoidance of liability. The example given by Judge Moran in Wisconsin Steel is illustrative: the sale of a business to a purchaser which is a Fortune 500 company would hardly constitute a "sham" or "fraud" under any common meaning of those terms, but where the seller had as a principal purpose the evasion or avoidance of its liability under the MPPAA, then the transaction would violate § 1392(c) and could be disregarded in determining withdrawal liability. See *Wisconsin Steel, 681 F. Supp. at 527.* We do not believe that this standard is inconsistent with the Seventh Circuit's comment in Cullum.[11]

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[11]Santa Fe bases its argument in part on our citation to the Sixth Circuit's decision in *Teamster's Pension Trust Fund v. Central Michigan Trucking, 857 F.2d 1107 (6th Cir. 1988).* We cited that case only in footnote 4 of the Opinion, in which we declined to adopt for § 1392(c) the meaning of "sham or fraud" used in the Tax Code, as Santa Fe

(continued...)

Conclusion

We grant Central States' Motion to Alter or Amend Judgment with regard to the Wisconsin Steel test, and we clarify our position on that test in this Opinion. We deny the remainder of Central States' motion. We also deny Santa Fe's "request" that we require the arbitrator to use a "sham" standard under *29 U.S.C. § 1392(c)*.

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[11](...continued)
urged us to do. In *Teamster's Pension Trust Fund v. Central Michigan Trucking, 857 F.2d 1107 (6th Cir. 1988)*, the Sixth Circuit rejected a similar argument for analogizing to the Tax Code the language of a different section of the MPPAA. Footnote 4 of the Opinion is incorrect to the extent it states that the Sixth Circuit had considered § 1392(c) in that case; we intended to say that the Sixth Circuit is the only circuit to address the argument that the MPPAA should be analogized to the Tax Code and that it has rejected that argument.